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2010

University of Maine System Annual Financial Report

University Of Maine System

Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

Additional copies are available at http://www.maine.edu/system/oft/AnnualFinancialReports.php or by contacting:

Office of Finance and Treasurer
16 Central Street
Bangor, ME 04401-5106

In complying with the letter and spirit of applicable laws and in pursuing its own goals of diversity, the University of Maine System shall not discriminate on the grounds of race, color, religion, sex, sexual orientation, including transgender status or gender expression, national origin or citizenship status, age, disability, or veterans status in employment, education, and all other areas of the University. The University provides reasonable accommodations to qualified individuals with disabilities upon request.

Questions and complaints about discrimination in any area of the University should be directed to Sally Dobres, Director of Equity and Diversity, University of Maine System, Office of Human Resources, 16 Central Street, Bangor, Maine 04401-5106 (207) 973-3372 (voice) or (207) 973-3262 (TTY/TDD). Inquiries or complaints about discrimination in employment or education may also be referred to the Maine Human Rights Commission. Inquiries or complaints about discrimination in employment may be referred to the U.S. Equal Employment Opportunity Commission.

Inquiries about the University's compliance with Title VI of the Civil Rights Act of 1964, which prohibits discrimination on the basis of race, color, and national origin; Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans with Disabilities Act of 1990, which prohibit discrimination on the basis of disability; Title IX of the Education Amendments of 1972, which prohibits discrimination on the basis of sex; and the Age Discrimination Act of 1975, which prohibits discrimination on the basis of age, may also be referred to the U.S. Department of Education, Office for Civil Rights (OCR), Boston, MA 02110-1491, telephone (617) 289-0111 (voice) or (617) 289-0150 (TTY/TDD). Generally, an individual may also file a complaint with OCR within 180 days of alleged discrimination.

Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

Office of the Chancellor
16 Central Street
Bangor, ME 04401-5106

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The University of Maine
University of Maine at Augusta
University of Maine at Farmington
University of Maine at Fort Kent
University of Maine at Machias
University of Maine at Presque Isle
University of Southern Maine

November 2010

Dear Friend:

The University of Maine System is the state's largest single provider of an educated work force and a major economic driver with a widespread impact: more than 42,000 students attend our universities—including more than 5,300 who graduate each year; an estimated 120,000 alumni live in Maine and contribute in many ways to local communities; thousands of other people and businesses in our state benefit from university research and development (R&D), business development, Cooperative Extension programs, community and cultural events, and a wide range of other activities.

The enclosed financial report will provide a complete financial overview of Maine's public universities as well as outline a number of initiatives undertaken to recruit and retain students, and contain costs and streamline operations. The System made significant progress:

- reduced the total number of full-time equivalent employees by six percent, over a two-year period;
- established a Strategic Investment Fund to invest in new programs and fund innovative ideas that will lead to new revenue sources or improved efficiencies;
- introduced a retirement incentive which garnered 125 participants;
- convened a retiree health care task force which developed recommendations to significantly slow down health care cost increases for that group;
- reviewed and eliminated several academic programs and courses which had low enrollments and no growth potential;
- implemented an employee wellness incentive to improve the health of our work force and, in turn, result in reduced health care costs;
- engaged in a System-wide enrollment management effort;
- and continued expanding financial transparency.

During the upcoming fiscal year the System will launch **Advancing Maine**, an action plan to transform Maine's economy by expanding and enhancing Maine's educated work force, focusing on Maine's business needs and targeted university R&D, and making college accessible and affordable for Maine citizens of all ages.

I invite you to peruse additional financial information and other data on our web site at www.maine.edu/UMSdatabook. If you have any questions or concerns, please contact my office at 207-973-3220.

Sincerely,

Richard L. Pattenaude
Chancellor

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As of November 2, 2010

Chancellor

Richard L. Pattenaude

Senior Staff

Tracy B. Bigney	Chief Human Resources and Organization Development Officer
James H. Breece	Vice Chancellor for Academic and Student Affairs
John Lisnik	Assistant to the Chancellor for Governmental Relations
Rosa S. Redonnett	Executive Director of Student Affairs
J. Kelley Wiltbank	University Counsel and Clerk, Board of Trustees
Rebecca M. Wyke	Vice Chancellor for Finance and Administration and Treasurer

University Presidents

Robert A. Kennedy	University of Maine
Allyson Hughes Handley	University of Maine at Augusta
Theodora J. Kalikow	University of Maine at Farmington
Wilson G. Hess	University of Maine at Fort Kent
Cynthia E. Huggins	University of Maine at Machias
Donald N. Zillman	University of Maine at Presque Isle
Selma Botman	University of Southern Maine

KPMG

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Independent Auditors' Report

The Board of Trustees
University of Maine System:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Maine System (the System), a component unit of the State of Maine, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the System's basic financial statements as shown on pages 23 through 58. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards.* An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the System as of June 30, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2010 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 22 and the schedules of funding progress and employers' contributions on page 59 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedules of activities (Schedules 1 and 2) on page 60 for the years ended June 30, 2010 and 2009 are presented for purposes of additional analysis as requested by the State of Maine and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 2, 2010

Management's Discussion and Analysis (unaudited)

June 30, 2010 and 2009

The following unaudited Management's Discussion and Analysis (MD&A) has been prepared by University of Maine System ("the System" or UMS) management to provide users with a narrative and analysis of the System's financial position based on currently known facts, decisions, and conditions. This discussion includes an analysis of the financial condition and results of activities of the System for the fiscal years ended June 30, 2010 and prior years. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying basic financial statements and related notes.

MISSION

The University of Maine System unites seven distinctive public universities in the common purposes of providing first-rate higher education at reasonable cost in order to improve the quality of life for the citizens of Maine. The System, through its Universities, carries out the traditional tripartite mission – teaching, research, and public service. As a System, it extends its mission as a major resource for the State, linking economic growth, the education of its people, and the application of research and scholarship.

UNIVERSITY OF MAINE SYSTEM UNIVERSITIES, CAMPUSES & CENTERS

The University of Maine System is a comprehensive public institution of higher education serving more than 42,000 students annually and is supported by the efforts of 1,322 regular full-time faculty, 94 regular part-time faculty, 3,257 regular full-time staff, and 354 regular part-time staff members. Nationally recognized as a leader in combining excellence with access in public higher education, the System consists of the following seven universities:

University of Maine (UM)
University of Maine at Augusta (UMA)
University of Maine at Farmington (UMF)
University of Maine at Fort Kent (UMFK)
University of Maine at Machias (UMM)
University of Maine at Presque Isle (UMPI)
University of Southern Maine (USM)

Lewiston-Auburn College is a campus of the University of Southern Maine. University College of Bangor is a campus of the University of Maine at Augusta. The Hutchinson Center in Belfast is a campus of the University of Maine.

University College offers access to quality public higher education statewide. Students may participate by interactive television (ITV) at dozens of sites throughout the State or may attend one of the nine University College locations below that offers both on-site and ITV instruction:

Bath/Brunswick
Dover-Foxcroft
East Millinocket
Ellsworth
Houlton
Norway/South Paris
Rockland
Rumford/Mexico
Saco

STUDENT ENROLLMENT

For Fall 2009, the System experienced a less than 1% decline in enrollment on a student headcount basis and a less than 1% increase in enrollment on a full-time equivalent (FTE) basis. For Fall 2008, the System experienced a 3% decline in enrollment on a headcount basis and a 1.5% decline on a full-time equivalent basis. 32,340 students were enrolled for the Fall 2009 semester, compared to 32,608 for Fall 2008. On a full-time equivalent basis, 23,711 students were enrolled for the Fall 2009 semester, compared to 23,688 for Fall 2008. For Fall 2009, 64% of the student population was enrolled full-time, up slightly from 63% in the Fall of 2008. 85% of students were Maine residents as compared to 84% in the past.

Table 1: Fall Student Enrollments

	Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
Full-Time	**20,739**	**64%**	**20,593**	**63%**	20,812	62%	20,838	61%	20,777	61%
Part-Time	**11,601**	**36%**	**12,015**	**37%**	12,814	38%	13,371	39%	13,468	39%
Headcount	**32,340**	**100%**	**32,608**	**100%**	33,626	100%	34,209	100%	34,245	100%
In-State	**20,175**	**85%**	**19,853**	**84%**	20,232	84%	20,299	84%	20,445	84%
Out-of-State	**3,536**	**15%**	**3,835**	**16%**	3,824	16%	3,928	16%	3,802	16%
Full-Time Equivalent	**23,711**	**100%**	**23,688**	**100%**	24,056	100%	24,227	100%	24,247	100%

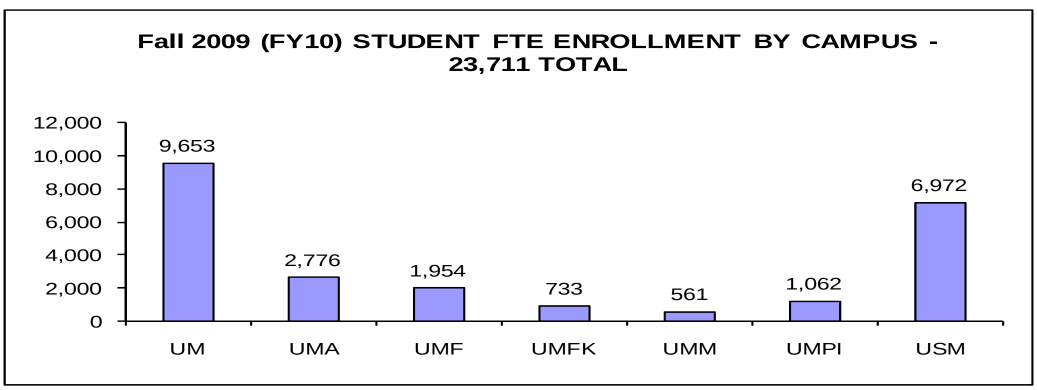


Table 2: Fall Student Enrollments - FTE

	% Change Fall 2005 to 2009	Fall 2009	% Change	Fall 2008	% Change	Fall 2007	% Change	Fall 2006	% Change	Fall 2005	% Change
UM	**5%**	**9,653**	**0.3%**	**9,620**	**0.8%**	9,548	1.6%	9,401	2.1%	9,204	1.7%
UMA	**1%**	**2,776**	**5.2%**	**2,639**	**0.1%**	2,637	-1.9%	2,689	-2.5%	2,759	-1.7%
UMF	**-9%**	**1,954**	**-0.5%**	**1,964**	**-1.9%**	2,002	-5.8%	2,126	-1.1%	2,149	3.0%
UMFK	**-20%**	**733**	**-2.7%**	**753**	**-17.3%**	910	-4.6%	954	3.8%	919	1.3%
UMM	**-10%**	**561**	**-2.4%**	**575**	**-1.0%**	581	-5.8%	617	-1.4%	626	-6.0%
UMPI	**-14%**	**1,062**	**-3.7%**	**1,103**	**-9.7%**	1,221	-3.1%	1,260	1.4%	1,242	-3.9%
USM	**-5%**	**6,972**	**-0.9%**	**7,034**	**-1.7%**	7,157	-0.3%	7,180	-2.3%	7,348	0.6%
Total	**-2%**	**23,711**	**0.1%**	**23,688**	**-1.5%**	24,056	-0.7%	24,227	-0.1%	24,247	0.5%

STUDENT COMPREHENSIVE COST OF EDUCATION

The weighted average comprehensive cost of education for UMS undergraduate, graduate and Law School students is shown in Table 3 below. The increases in the student cost of education compared with prior years reflect UMS' commitment to providing affordable higher education while addressing the pressures of declining State appropriations and managing increases in operating expenses.

Percentage increases in 2010 range from a high of 6.2% for out-of-state undergraduate students to a low of 3.2% for New England Board of Higher Education (NEBHE)/Canadian Law School students. Percentage increases in 2009 range from a high of 15.0% for undergraduate NEBHE students to a low of 4.0% for NEBHE/Canadian Law School students.

Table 3: Student Comprehensive Cost of Education
Tuition, Mandatory Fees, and Room and Board
Weighted Averages

	2010		2009		2008		2007		2006	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	**$16,431**	**5.3%**	**$15,598**	**8.3%**	$14,399	**8.2%**	$13,313	**7.3%**	$12,404	**6.9%**
Out-of-State	**29,211**	**6.2%**	**27,514**	**8.5%**	25,360	**9.5%**	23,150	**7.2%**	21,599	**8.3%**
NEBHE	**20,266**	**5.2%**	**19,269**	**15.0%**	16,762	**9.0%**	15,385	**7.8%**	14,268	**6.2%**
Canadian	**18,796**	**4.9%**	**17,917**	**6.9%**	16,762	**9.0%**	15,385	**7.8%**	14,268	**6.2%**
Graduate										
In-State	**$15,375**	**5.4%**	**$14,582**	**8.4%**	$13,446	**8.0%**	$12,452	**7.2%**	$11,613	**6.9%**
Out-of-State	**27,816**	**5.5%**	**26,365**	**8.7%**	24,260	**9.7%**	22,111	**7.1%**	20,651	**7.2%**
NEBHE	**18,503**	**4.7%**	**17,675**	**8.0%**	16,365	**7.9%**	15,171	**8.9%**	13,929	**5.0%**
Canadian	**18,959**	**5.0%**	**18,052**	**10.3%**	16,365	**7.9%**	15,171	**8.9%**	13,929	**5.0%**
Law School										
In-State	**$29,052**	**5.8%**	**$27,464**	**6.5%**	$25,794	**7.4%**	$24,017	**7.6%**	$22,319	**10.2%**
Out-of-State	**39,552**	**4.2%**	**37,964**	**5.8%**	35,874	**7.1%**	33,507	**7.3%**	31,219	**9.0%**
NEBHE/Canadian	**37,002**	**3.2%**	**35,864**	**4.0%**	34,494	**7.4%**	32,106	**7.6%**	29,839	**10.8%**

Management's Discussion and Analysis (unaudited)
June 30, 2010 and 2009

OVERVIEW OF THE FINANCIAL STATEMENTS

The University of Maine System's financial statements include three primary components, the:

- Statements of Net Assets,
- Statements of Revenues, Expenses, and Changes in Net Assets, and
- Statements of Cash Flows.

The University of Maine Foundation and the University of Maine Pulp and Paper Foundation are legally separate tax-exempt component units of the University of Maine System. Each of these entities' financial position and activities are discretely presented in the University's financial statements as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The MD&A includes information only for the System, not its component units. These financial statements are prepared in accordance with U.S. generally accepted accounting principles.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the financial position of the System at one point in time – June 30 – and include all assets, liabilities, and net assets of the System. This statement is the primary statement used to report financial condition. Net assets represent the residual interest in the System's assets after liabilities are deducted. The change in net assets is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 4 on the following page shows Condensed Statements of Net Assets for the past five years.

Total assets increased by $232 million, or 28%, over the past five years to a total of $1,057 million at June 30, 2010. Total assets are categorized as either current or noncurrent. Current assets are available to satisfy current liabilities, which in turn are those amounts expected to be payable within the next year. The major component of current assets is short-term investments which total $196 million and $157 million at June 30, 2010 and 2009, respectively.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments total $104 million at June 30, 2010, an increase of $9 million or 9% from the FY09 year-end balance, and a $3 million or 3% increase over the five year period. Capital assets total $644 million and $645 million at June 30, 2010 and 2009, respectively. The System's progress in upgrading older facilities and meeting new facilities needs is addressed later in this report.

Current liabilities of $68 million and $64 million at June 30, 2010 and 2009, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's workers compensation, health, and retirement plans. Accounts payable balances are impacted by the timing of the last check cycle for the fiscal year, the level of construction activity in progress, and budget constraints.

At $282 million, total noncurrent liabilities declined $7 million or 2% from June 30, 2009 to 2010. Noncurrent liabilities consist primarily of bonds and notes payable which totaled $192 million at June 30, 2010, declining $9 million or 4% from the FY09 balance.

Net assets increased $55 million or 8% from June 30, 2009 to 2010.

Management's Discussion and Analysis (unaudited)
June 30, 2010 and 2009

Table 4: Condensed Statements of Net Assets as of June 30
($ in millions)

	2010	% Change	2009	% Change	2008	2007	2006
Current Assets	**$259**	**25%**	**$207**	**2%**	$203	$188	$186
Noncurrent Assets							
Endowment investments	**104**	**9%**	**95**	**-17%**	115	123	108
Capital assets, net	**644**	**0%**	**645**	**4%**	621	577	519
Other	**50**	**-14%**	**58**	**-22%**	74	107	111
Total Assets	**$1,057**	**5%**	**$1,005**	**-1%**	$1,013	$995	$924
Current Liabilities	**$68**	**6%**	**$64**	**-21%**	$81	$66	$71
Noncurrent Liabilities:							
Bonds and Notes Payable	**192**	**-4%**	**201**	**-4%**	209	216	189
Other	**90**	**2%**	**88**	**7%**	82	81	76
Total Liabilities	**350**	**-1%**	**353**	**-5%**	372	363	336
Invested in Capital Assets, net of debt	**444**	**2%**	**436**	**4%**	418	396	379
Restricted:							
Nonexpendable	**49**	**4%**	**47**	**-4%**	49	49	48
Expendable	**86**	**1%**	**85**	**-12%**	97	111	99
Unrestricted	**128**	**52%**	**84**	**9%**	77	76	62
Total Net Assets	**707**	**8%**	**652**	**2%**	641	632	588
Total Liabilities and Net Assets	**$1,057**	**5%**	**$1,005**	**-1%**	$1,013	$995	$924

Endowments

General:

Endowments are gifts received from donors where the original amount of the gift (principal) cannot be expended while the income earned and related appreciation can be expended. If the donor established criteria to determine how the expendable amounts can be used, then such amounts are considered restricted expendable. If the use of funds is left to the discretion of the System, the endowment income and appreciation is considered unrestricted.

Pooled Investment Approach:

The System continues to use a pooled investment approach for its endowments unless otherwise required by the donor. The pooled funds reported herein also include endowment monies held by the System on behalf of four affiliated organizations: the University of Maine at Farmington Alumni Foundation, the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. Two outside entities, the UMS Other Post Employment Benefit (OPEB) Trust and Maine Maritime Academy, joined the investment pool during FY09.

Table 5 below shows the June 30, 2010 and 2009 market values of the pooled investments, including the amounts held on behalf of each entity.

Table 5: Market Value of Pooled Investments by Entity
($ in millions)

	2010	2009
University of Maine System & Affiliates Endowments	$104	$95
Other Post Employment Benefits Trust	30	19
Maine Maritime Academy	15	13
Total	**$149**	**$127**

The accompanying Statements of Net Assets and Statements of Revenues, Expenses, and Changes in Net Assets include only the System's and affiliates' share of the pooled investments and related investment activity. The Other Post Employment Benefits Trust and Maine Maritime Academy investments are not included in those Statements.

The pooled investments are diversified among the following asset classes to minimize risk while optimizing return.

Table 6: Asset Allocation Percentages for Pooled Investments at June 30

	2010	2009	2008	2007	2006
Equity:					
Domestic Equities	**36%**	**35%**	40%	44%	41%
International Equities	**15%**	**15%**	15%	20%	16%
Fixed Income:					
Multi-Strategy Bond	**14%**	**14%**	13%	15%	16%
High Yield Bond	**0%**	**0%**	0%	4%	4%
Cash	**5%**	**5%**	0%	0%	4%
Alternative:					
Global Absolute Return	**14%**	**15%**	9%	8%	8%
Hedge Funds	**10%**	**8%**	10%	0%	0%
Market Neutral	**3%**	**4%**	8%	6%	7%
Timber	**3%**	**4%**	5%	3%	4%
Total	**100%**	**100%**	100%	100%	100%

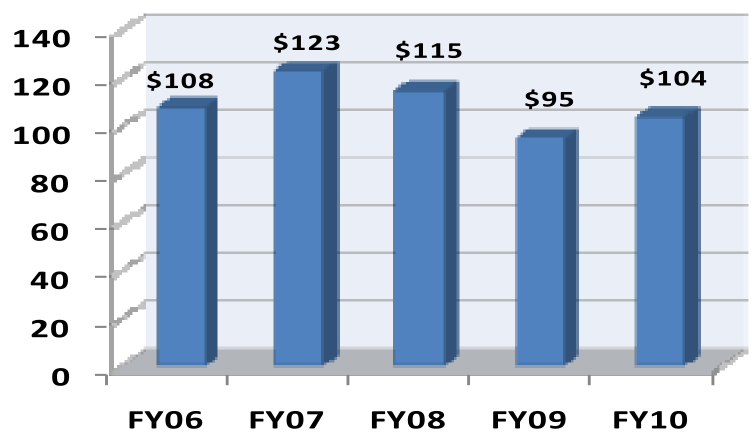
System Endowments (Including Affiliates):

As previously noted in Table 5, the System's pooled endowment investments (including affiliates) had a market value of $104 million at June 30, 2010, a $9 million increase from the prior year end market value of $95 million. The net increase includes $11 million in net performance, income, and fees, and $3 million in endowment contributions, less $5 million distributed for scholarships and operating activities.

The market rallied for most of FY10 with the pool experiencing a net of fees return of 11.5%. These positive results allowed the investments to regain some of the losses experienced in the prior fiscal year. Nonetheless, the economic recovery is weak with continued high unemployment, high governmental debt levels, general market uncertainty, and a recovery largely based on governmental actions.

In FY09, reflecting the global financial crisis, the pooled investments had experienced a net of fees return of -15.7%. The pooled investments have a 5-year annualized net of fees return of 3.2%.

Market Values of UMS & Affiliates Endowments Invested in Pool ($ in millions)



The System manages its endowment with the goal of generating a fairly consistent stream of annual support for current needs, while at the same time preserving the endowment as a whole to ensure funds for future years.

The strain on endowments created by the global financial crisis had prompted the System to change its formula for future endowment distributions to better smooth market volatility. That change took effect in FY10. The new method uses a 3-year market value average with an annually determined spending rate applied, with a commitment to consistently apply the method over a long-term period. The spending rate applied in FY10 was 5%.

The FY09 distribution amounts were calculated using a weighted 2 part formula:

- Part 1 considered the current FY endowment distribution amount increased by the consumer price index.
- Part 2 considered the current endowment fund market value multiplied by a 5% spending rate.

Capital Assets and Debt Activities

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment for educational, research, and cultural programs and residential life. The System is continually focusing on long-term capital needs, upgrading older facilities and constructing new facilities when necessary. In FY10 and FY09 these types of activities were funded with State bonds, private gifts, educational and general funds, and System revenue bonds.

The FY10 capital asset additions of $28 million consist of $22 million related to land and replacement, renovation, and new construction activities and $6 million in equipment and software acquired through purchases or gifts-in-kind. The FY09 capital asset additions of $53 million consist of $47 million related to land and replacement, renovation, and new construction activities and $6 million in equipment and software acquired through purchases or gifts-in-kind.

At UM, major construction activities completed included the Back Pressure Turbine Electric Generator and Coburn Hall Renovations. New and continuing construction or renovation projects at UM include the AEWC Expansion, Aubert Hall Lab updates Phase II, Fogler Library HVAC upgrades, and the Stewart New Media/Art Complex. Major completed construction and renovation projects at USM include Lewiston-Auburn College classroom and second floor improvements and the Communications/Media Studies space renovation at Sullivan Gym Annex. In addition, Robie Andrews Hall and Upton Hastings Hall in Gorham were renovated. Other significant completed projects include UMF's Preble/Ricker Hall renovations and UMFK's Powell Hall renovations. UMF's Emery Arts Center is also in progress. In addition, various projects are in the design phase including UM's Forest Bioproducts Research Initiative projects, UMF's Ricker addition renovations, UMPI's Pullen Hall, and UMS Data Center improvements.

The System strives to manage all of its financial resources effectively including the prudent use of debt to finance capital projects that support the System's mission; thereby, placing the System in a better position to achieve its strategic goals. Capital leases, bonds, and notes payable as of June 30, 2010 and 2009 were $203 million and $212 million, respectively.

Table 7 on the next page shows the status of major capital projects as of June 30, 2010. As shown in this table, capital projects are funded from a variety of sources including educational and general, gifts, grants, revenue bonds issued by the System (Bonds), and state capital appropriations (State Bonds).

Table 7: Major Capital Projects in Progress
($ in millions)

Project	Funding Source	Status	Budget
UM			
Estabrook/UPark Sprinklers	State Bond	Design	$.60
Back Pressure Turbine Electric Generator	Educational & General	Complete	1.25
Advanced Engineered Wood Composites Center Expansion	Maine Technology Inst Award & ARRA	In Progress	17.42
Center for Cooperative Aquaculture Research Tank Enclosure	Maine Technology Inst Award	Design	1.90
Aubert Hall Lab Updates Phase II	State Bond	In Progress	6.00
Coburn Hall Renovations	State Bond	Complete	.85
Fogler Library HVAC Upgrades Phase I	State Bond	In Progress	1.20
Forest Bioproducts Research Initiative (FBRI) Technology Center	Grant	Designer Selection	2.10
FBRI Tech Center Equip	Grant	Design	1.50
FBRI Campus Office- Jenness	Grant	Design	1.20
Stewart New Media/Art Complex	Educational & General, Gift, Bond, Grant	Design	7.98
Bike Path Rehabilitation	Educational & General & Grant	Permitting	.50
Heat Plant Boiler 8 Design	Educational & General	Design	.45
UMF			
Emery Arts Center	Gifts	In Progress	5.60
Preble/Ricker Hall Renovations	Bond & Educational & General	Complete	1.75
Ricker Addition Renovations	Bond & Educational & General	Design	2.10
UMFK			
Powell Hall Renovations	State Bond	Complete	1.40
UMPI			
Pullen Hall	Bond & Educational & General	Design	1.50
USM			
Lewiston-Auburn College Classroom Improvements	State Bond	Completed	.84
Lewiston Auburn College 2nd Floor	State Bond/ Federal Earmark	Completed	.76
Robie Andrews Hall Renovations	Portland Hall Proceeds	Completed	.87
Upton Hastings Hall Renovations	Portland Hall Proceeds	Completed	.77
Communications/Media Relocation Sullivan Gym Annex	Educational & General	Completed	.50
UMS			
Data Center Projects	Educational & General	Design	1.10
		TOTAL	$60.14

Net Assets

Invested in capital assets, net of related debt, represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. As seen in Table 4, the System had $444 million invested in capital assets, net of debt, at June 30, 2010. The FY10 increase of $8 million was primarily the result of payments made on the related debt as additions to capital assets were largely offset by the annual depreciation. The FY09 increase of $18 million in this category of net assets reflect both the System's efforts toward renewal and expansion of its capital assets as well as a decline in the related debt payable.

Restricted-nonexpendable net assets represent the System's permanent endowment funds. Items that impact this category of net assets include new endowment gifts and fair market value fluctuations for those endowments whose fair value has fallen below the endowment corpus. For this net asset category, there was a $2 million increase from FY09 to FY10 compared with a $2 million decline from FY08 to FY09.

Restricted-expendable net assets include unexpended gifts and System endowment appreciation subject to externally imposed conditions on spending. These net assets are restricted for a wide variety of purposes including student financial aid, capital asset acquisitions, research, and public service. The $1 million increase in FY10 is the result of favorable market conditions net of a $4 million and a $1 million decrease in gift balances restricted for capital assets and athletics, respectively. The $12 million decrease in FY09 is primarily the result of negative financial market conditions impacting the endowment fund.

Unrestricted net assets are not subject to externally imposed stipulations; however, these assets have been committed to specific areas, including operational and capital needs, scholarships, and benefits costs. Given both the physical and financial size of the University of Maine System, funds must be readily available to cover various situations including emergency expenditures, strategic priorities, operating losses, over-expenditures on capital or other projects, and severance arrangements during periods of restructuring. Unrestricted net assets grew by $44 million from FY09 to FY10 compared with $7 million from FY08 to FY09.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The total change in the System's net assets for the year is reported in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement reports total operating revenues, operating expenses, nonoperating revenues (expenses), and other changes in net assets. The System's total net assets increased $55 million in FY10 and $11 million in FY09. Table 8 on the next page shows Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the past five fiscal years ended June 30.

There are three major components which management considers when analyzing the change in net assets:

- net income (loss) from recurring activities, which includes both operating and nonoperating revenues and expenses;
- capital appropriations and other plant changes; and
- endowment gifts and undistributed returns.

Management's Discussion and Analysis (unaudited)

June 30, 2010 and 2009

Table 8: Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30

($ in millions)

	2010	% Change	2009	% Change	2008	2007	2006
Net Student Fees	$236	0%	$235	9%	$215	$200	$187
Grants, Contracts and Indirect Cost Recovery	171	13%	152	1%	150	149	148
Other Operating Revenues	62	2%	61	-3%	63	57	60
Operating Revenues	$469	5%	$448	5%	$428	$406	$395
Operating Expenses	(648)	0%	(647)	-1%	(642)	(605)	(591)
Operating Loss	(179)	10%	(199)	7%	(214)	(199)	(196)
Nonoperating Revenues (Expenses)							
Noncapital State of Maine Appropriations	190	-2%	194	-3%	201	192	185
State Fiscal Stabilization Funds	7	0%	7	-			
Gifts Currently Expendable	11	-31%	16	7%	15	13	12
Endowment Return Used for Operations	5	-17%	6	20%	5	5	4
Investment Income	11	467%	(3)	-175%	4	10	8
Interest Expense	(9)	10%	(10)	-11%	(9)	(5)	(5)
Net Nonoperating Revenue	215	2%	210	-3%	216	215	204
Income Before Other Changes in Net Assets	36	227%	11	450%	2	16	8
Other Changes in Net Assets							
State of Maine Capital Appropriation	7	-22%	9	0%	9	10	13
Capital Grants and Gifts	8	-43%	14	133%	6	8	5
Endow. Return, Net of Amt. Used for Operations	5	122%	(23)	-188%	(8)	11	5
Other	(1)	-	0		0	(2)	3
Total Other Changes in Net Assets	19	-	0	-100%	7	27	26
Change in Net Assets	$55	400%	$11	22%	$9	$43	$34

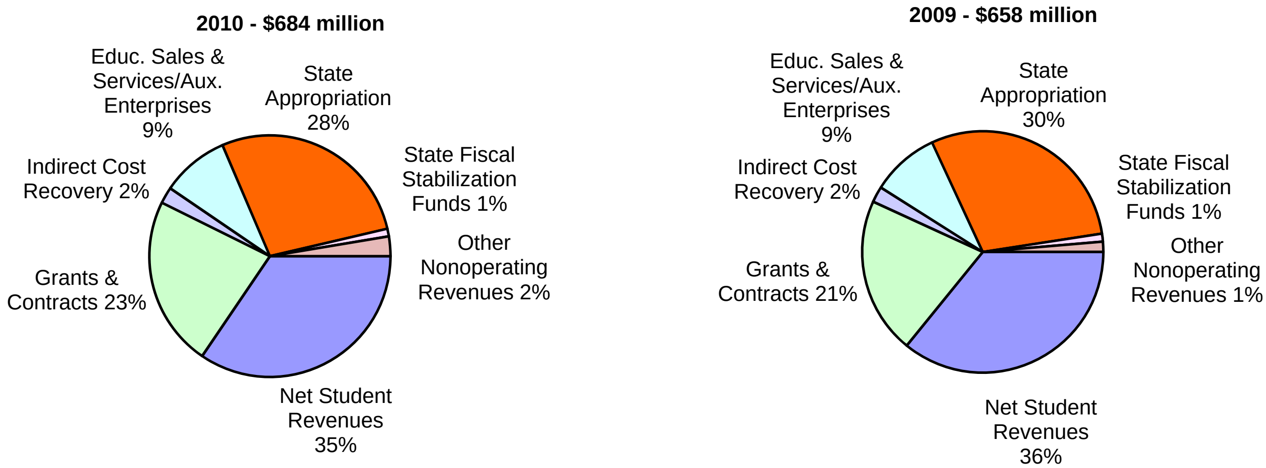
Operating and Nonoperating Revenue

In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded sponsored programs; gifts from individuals, foundations, and corporations; state appropriations; and investment income. In FY09, the UMS received a $20.3 million State Fiscal Stabilization Fund award under the American Recovery and Reinvestment Act (ARRA) of 2009. The award was for a three year period. In FY10 and FY09 the University received $7.2 million and $6.6 million, respectively, leaving a balance of $6.5 to be received. With the decline in State appropriations revenue of $4 million and $7 million in FY10 and FY09, respectively, and $3 million in operating investment losses during FY09, these ARRA funds were critical to stabilizing the System's financial condition.

Revenues and expenses are categorized as either operating or non-operating. Certain significant recurring revenues and expenses including state appropriations, gifts, investment income or loss, and interest expense are considered non-operating.

The following pie charts illustrate both the operating and net non-operating revenue sources used to fund the System's activities for the years ended June 30, 2010 and 2009.

TOTAL OPERATING & NET NONOPERATING REVENUE



Net student revenues of $236 million for FY10 is the primary source of operating revenues. As illustrated above, the portion of total operating and net nonoperating revenues funded by these net student revenues fell by 1 percentage point to 35% of the total revenue.

Net student revenues is comprised of tuition and fees and residence and dining fees less scholarship allowances:

- Tuition and fees totaled $251 million in FY10, increasing $13 million over FY09. The increase is primarily the result of a 6.0% weighted average increase in undergraduate in-state tuition and fees.
- Residence and dining fees of $59 million in FY10 declined $1 million from FY09 despite a 4.7% weighted average increase in room and board rates.
- Scholarship allowances of $73 million increased $10 million or 16% over FY09 largely due to an increase in Pell grants.

Tuition and fees and residence and dining fees in FY09 totaled $235 million after adjusting for scholarship allowances, reflecting an increase of $20 million or 9% over FY08 revenue of $215 million. This change is the result of a 10.1% weighted average increase in undergraduate in-state tuition and fees and a 6.6% weighted average increase in room and board rates. The share of total operating and net nonoperating revenues funded by net student revenues grew by 3 percentage points to 36% of the total revenue.

Student financial aid awards are made from a variety of sources including federal, state, private, and university funds. Aid received from third parties is recognized as grants and contracts revenue on the Statements of Revenues, Expenses, and Changes in Net Assets while the distribution of aid from all sources is shown as two components:

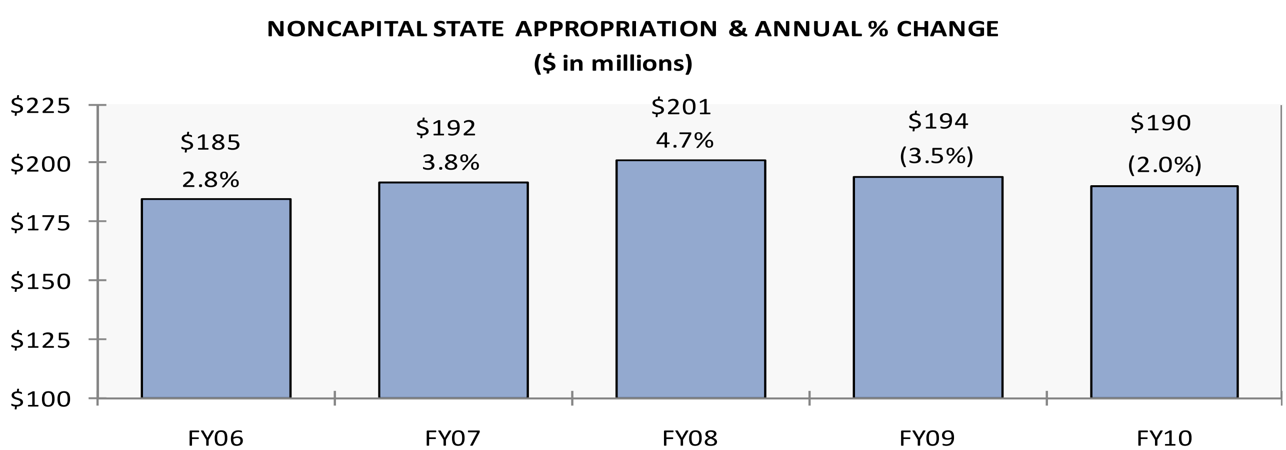
1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues.
2. Student Aid Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses. These amounts are reported as operating expense.

Federal financial aid awards are based on a student's financial need compared with their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses.

In FY10, total financial aid provided was $98 million, which was a $14 million or 17% increase over FY09 aid of $84 million. $12 million of this increase was the result of increased Pell grants primarily due to the change in federal legislation which allows students who qualify to receive up to two Pell grants in one award year to accelerate their program. Financial aid provided in FY09 had increased 9% over FY08 aid of $77 million.

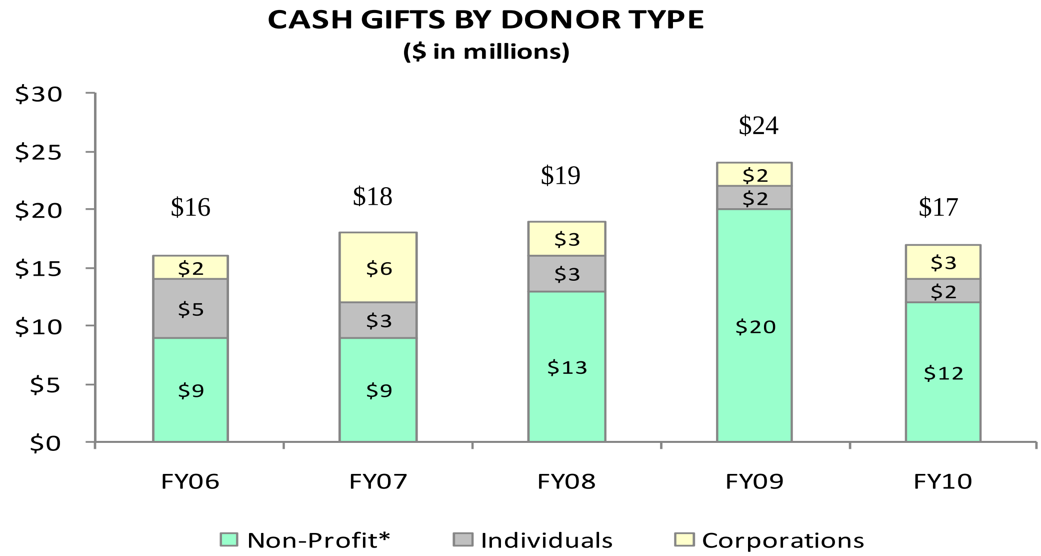
Grants and contracts revenues totaled $156 million in FY10, increasing $19 million over FY09. Pell grant revenue accounts for 63%, or $12 million, of the the previously mentioned increase. FY09 revenues at $138 million had increased $2 million over FY08 revenues. Grants and contracts revenues are recognized to the extent of related expenses. Consequently, reported revenues will fluctuate based on the timing of expenses across fiscal years. The System receives funding from federal, state, and private sources with the majority of funding being provided by the federal government for research activities. Grants and contract sponsors also provide for recovery of indirect costs and State research and development funding is used to leverage federal dollars.

State appropriation revenue includes amounts for general operations as well as amounts legislatively earmarked for research and development, financial aid, and various other areas. Although not considered operating revenue under GASB reporting requirements, the noncapital State appropriation was the second largest funding source for educational and general operations. After a $6 million appropriation curtailment, the System received $190 million in noncapital State appropriation in FY10, for a $4 million or 2% decline from FY09. For FY10 and FY09, the noncapital state appropriation covered 107% and 97% respectively of the net operating loss.



Gifts

Total gifts received decreased $7 million during FY10 compared to FY09; whereas, gifts received during FY09 increased $5 million compared to FY08. The decline from FY09 to FY10 is primarily due to the significant contribution of nearly $8 million in FY09 by the USM Foundation for construction of the Wishcamper Center and the Osher Map Library.



*Non-Profit includes foundations, governmental agencies, and other non-profit groups

Operating Expenses

Table 9: Operating Expenses, Classified by Function
For the Years Ended June 30
($ in millions)

	2010		2009		2008		2007		2006	
Instruction	**$180**	**28%**	**$179**	**28%**	$176	28%	$168	28%	$159	27%
Research	**75**	**12%**	**73**	**11%**	75	12%	71	12%	72	12%
Public Service	**60**	**9%**	**57**	**9%**	54	8%	53	9%	53	9%
Academic support	**67**	**10%**	**66**	**10%**	66	10%	66	11%	61	10%
Student services	**47**	**7%**	**48**	**7%**	48	7%	45	7%	44	8%
Institutional support	**47**	**7%**	**48**	**7%**	54	8%	43	7%	43	7%
Operation and maintenance of plant	**46**	**7%**	**51**	**8%**	49	8%	46	8%	45	8%
Depreciation and amortization	**27**	**4%**	**26**	**4%**	23	4%	21	3%	20	3%
Student aid	**25**	**4%**	**21**	**4%**	20	3%	20	3%	20	3%
Auxiliary enterprises	**74**	**12%**	**78**	**12%**	77	12%	72	12%	74	13%
Total Operating Expenses	**$648**	**100%**	**$647**	**100%**	$642	100%	$605	100%	$591	100%

Table 9 shows expenses on a functional basis; Table 10 presents a comparative summary of the System's expenses based on a natural classification.

Table 10: Total Expenses by Natural Classification
For the Years Ended June 30
($ in millions)

	2010		2009		2008		2007		2006	
Operating:										
Compensation and benefits	**$424**	**65%**	**$425**	**65%**	$417	64%	$388	64%	$373	63%
Utilities	**27**	**4%**	**32**	**5%**	32	5%	30	5%	28	5%
Supplies and services	**144**	**22%**	**143**	**22%**	150	23%	146	24%	150	25%
Depreciation	**28**	**4%**	**26**	**4%**	23	4%	21	3%	20	3%
Student aid	**25**	**4%**	**21**	**3%**	20	3%	20	3%	20	3%
Total Operating Expenses	**648**	**99%**	**647**	**99%**	642	99%	605	99%	591	99%
Nonoperating:										
Interest	**9**	**1%**	**10**	**1%**	9	1%	5	1%	5	1%
Total Expenses	**$657**	**100%**	**$657**	**100%**	$651	100%	$610	100%	$596	100%

As shown in Table 10, compensation and benefits expenses decreased by $1 million or less than 1% in FY10. Compensation and benefits expenses had increased $8 million in FY09 or nearly 2% over the prior year. Of these totals, compensation decreased $5 million or almost 2% in FY10 after increasing $5 million in FY09; benefits increased $4 million or slightly more than 3% in FY10 and $3 million in FY09.

FY08 was the first year that the System was required to recognize postemployment health benefit costs on an accrual basis rather than the past pay-as-you-go basis. $12 million of FY10's and FY09's compensation and benefits expense was attributable to this accounting change. The System is continuing its efforts to contain health care cost increases while also providing quality health care coverage to employees and retirees.

CURRENT AND FUTURE CONSIDERATIONS

The System views the work ahead as an opportunity to craft a system that continues to be vibrant, innovative, and relevant – meeting the evolving knowledge, research, public service, and education needs of our students and Maine citizens and its communities. Negative financial and demographic forces require the System to undergo transformative change to assure financial sustainability. Many stakeholders have worked collaboratively over the past year to shape the work that lies ahead. First, administrative, service delivery, and academic efficiencies will be undertaken to slow the rate of cost increases. Second, fundamental changes in structure and operations will be reviewed and a course set to organize the System and our work in a more effective manner.

Enrollments within the System had steadily increased from 1997 until the Fall of 2005. Enrollments then declined through 2008. On a headcount basis, enrollments again fell in Fall 2009 while enrollments increased on a full-time equivalent basis. Fall 2009 full-time equivalent enrollments totaled 23,711, a .1% increase over 2008 levels. Early Fall 2010 enrollments are showing a slight decline from 2009 enrollments.

Projections indicate that the number of Maine high school graduates will decline over the next few years; therefore, the System is proactively pursuing increased in-state, out-of-state, and international student enrollments, both traditional age and adult enrollment. Additionally, each institution is focusing on retention efforts while assisting prospective students with the transition to university life.

Recruitment efforts include expansions and/or enhancements in the following areas:

- Strategic use of financial aid
- On-line application capabilities
- Increased marketing and outreach in-state and out-of-state
- Out of state recruitment activity
- Web tools and institutional web sites
- Specialty area recruitments (e.g., music, sports)
- Advising and student success efforts on all campuses
- Recruitment and advising of students intending to transfer from community colleges
- Exposing high school students to UMS institutions through early-study and early-college opportunities
- Expanded veterans recruitment (due to implementation of new GI bill)
- Expanded international recruitment efforts in China and domestically and at Maine's private academies

Retention efforts include:

- Continued development and implementation of student success programs – these include first and second year student success programs and programs geared toward increasing the graduation rates at UMS campuses.
- Pursuit of grant opportunities to fund expanded services for veterans – for example, UMA received a $100 thousand grant from the Walmart Foundation for the development of an expanded veterans services office.
- Participation in the National Survey of Student Engagement (students surveyed as freshmen and then again as seniors)
- Alignment and expansion of curricular and co-curricular experiences to further engage students and enhance course work

In January 2009 the System commenced the "New Challenges, New Directions Initiative" to address challenges faced by the System. Projects out of this initiative include:

- Study of tuition and pricing strategies for UMS and its campuses
- Formation of enrollment management teams on every campus and an executive level team at UMS
- Development of enrollment plans for every campus which include annual and long term goals and targets
- Annual summit on access, affordability and enrollment – an Enrollment Summit was held in May 2010, and an Enrollment Planning Workshop was held in September 2010
- The UMS is embarking on a major branding and marketing initiative focused on the importance of baccalaureate and graduate education for the future economic and workforce development of Maine
- Enhanced Services:
    - Implementation of campus one stops
    - Exploration of a portal for on line student service
    - Development of strategies for more seamless transfer into and across UMS
    - Development of web based student services such as on line bill payment

Management's Discussion and Analysis (unaudited)
June 30, 2010 and 2009

From a financial perspective, the State of Maine's fiscal performance is the most significant factor impacting the System. The world financial crisis hit home in FY09 requiring the State to make significant adjustments for losses in revenue. Originally, the FY09 UMS unrestricted educational and general appropriation was legislated to increase $3.4 million, was later decreased to essentially remain flat, and subsequently saw a curtailment, ending down $8 million. FY10 was another difficult year with an appropriation reduction of $7 million and an additional curtailment of $7.5 million of which $1.5 million was restored.

The economic recovery is weak and volatile conditions persist. In March 2010 the State of Maine Revenue Forecasting Committee projected State revenues downward by $302 million for the 2012-2013 biennium. Faced with State budget challenges the Governor has curtailed spending in some areas. While, at this point, the UMS was spared any curtailment we recognize the tough financial challenges that both the State and UMS face and we will continue to be vigilant in our efforts to control costs at the same time we work to increase access.

Even with past increases State funding is not sufficient to offset rising educational costs. For FY11, the System held undergraduate in-state tuition increases to an average 4.8%, down from 5.85% in the prior year. For FY11 the System ran various budget scenarios, including tuition increases that provided for revenue needs but remained sensitive to affordability and the impact on enrollments. The System is also implementing and considering various other revenue enhancement and cost cutting measures as a result of the New Challenges and New Directions initiative.

Implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in 2008 continues to be a budgeting challenge for the System. Under GASB Statement 45, the System accounts for postemployment health costs on an accrual basis rather than the pay-as-you-go basis which had been used up until FY08. When planning for this accounting change, the System took action to reduce its liability and the annual required contribution (ARC). The actions taken were recommended by a Retiree Health Plan Task Force and included changes in retiree health plan eligibility rules and premium contributions, replacement of the Medicare supplement plan by a Medicare Advantage Plan, and the establishment and funding of an irrevocable trust.

The System was further challenged in FY10 by a projected substantial increase in retiree health care premium costs, again prompting a review of options. The Retiree Health Plan Task Force was reconvened and was able to meet the budget challenge by phasing out an early retiree premium subsidy.

Even with the measures taken to reduce the cost of the postemployment health plan, the ARC was $19 million and $18 million for FY10 and FY09, respectively. The System has established and funded a trust which enables the System to use a more favorable discount rate, thereby reducing the expense and liability. The System provides the funding through direct payment of claim costs as they occur and by putting the remaining amount ($12 million for FY10 and $12 million for FY09) in an irrevocable trust.

Compensation and benefits constitute 72% of the educational and general budget. A significant portion of benefits costs is attributed to health care. During FY11, the Chancellor convened an Employee Health Plan Task Force to provide leadership to the UMS and to the collective bargaining process in recommending actions that will contribute to continuing a competitive employee health care benefit while reducing the cost trend for the employee health plan in order to improve the financial sustainability of UMS.

Currently campus budgets do not fully fund depreciation with facilities capital maintenance needs being funded primarily with operating surpluses, which has resulted in a depreciation "gap" that is increasing annually. To address this situation the System issues revenue bonds when prudent and possible. The System also continues to seek State bond funding. Voters approved State bond funding of $9 million for UMS in June 2010 for energy and infrastructure upgrades.

The issues noted above, ranging from enrollments to State budget challenges to rising health care costs and deferred maintenance, converge along with many other challenges, emphasizing the need for and importance of the New Challenges and New Directions Initiative. The work from this initiative continues to guide us into the future.

UNIVERSITY OF MAINE SYSTEM
Statements of Net Assets
June 30, 2010 and 2009
($ in thousands)

	2010 University of Maine System	2009 University of Maine System	2010 Component Units	2009 Component Units
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	$ 373	$ 992	$ 97	$ 476
Short-term investments (Note 3)	196,195	156,616	2,959	4,136
Accounts, grants, and pledges receivable, net (Note 4)	54,249	41,562	620	612
Inventories and prepaid expenses	7,654	7,460	-	-
Notes and lease receivable, net (Note 5)	63	-	-	-
Total Current Assets	258,534	206,630	3,676	5,224
Noncurrent Assets:				
Deposits with bond trustees (Notes 3 and 6)	5,211	6,314	-	-
Accounts, grants, and pledges receivable, net (Note 4)	4,475	9,008	1,532	1,785
Notes and lease receivable, net (Note 5)	38,699	40,876	1,062	845
Endowment and other investments (Note 3)	104,393	94,894	156,192	143,949
Bond issuance costs, net (Note 7)	1,812	1,955	-	-
Capital assets, net (Note 6)	644,150	644,975	121	128
Other assets	-	-	13,168	13,784
Total Noncurrent Assets	798,740	798,022	172,075	160,491
Total Assets	$ 1,057,274	$ 1,004,652	$ 175,751	$ 165,715
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 15,391	$ 12,325	$ 36	$ 251
Deferred revenue and deposits (Notes 8 and 12)	13,537	15,638	-	-
Accrued liabilities (Notes 7, 11 and 14)	28,829	26,861	-	-
Funds held for others	1,015	839	-	-
Current portion of capital lease obligations (Note 7)	283	310	-	-
Current portion of bonds and notes payable (Note 7)	8,987	8,293	123	119
Total Current Liabilities	68,042	64,266	159	370
Noncurrent Liabilities:				
Accrued liabilities (Notes 7 and 11)	41,438	40,495	902	866
Funds held for others (Note 3)	15,055	13,042	-	-
Capital lease obligations (Note 7)	2,219	2,646	-	-
Bonds and notes payable, net (Note 7)	191,966	200,936	1,130	1,233
Government advances refundable (Note 9)	31,348	31,762	-	-
Other liabilities	-	-	5,275	5,244
Total Noncurrent Liabilities	282,026	288,881	7,307	7,343
Total Liabilities	350,068	353,147	7,466	7,713
NET ASSETS				
Invested in capital assets, net of related debt	444,471	436,128	93	105
Restricted:				
Nonexpendable (Note 10)	48,602	47,141	125,916	123,926
Expendable (Notes 3 and 10)	86,301	84,639	36,262	32,447
Unrestricted (Note 10)	127,832	83,597	6,014	1,524
Commitments and contingencies (Note 11)	-	-	-	-
Total Net Assets	707,206	651,505	168,285	158,002
Total Liabilities and Net Assets	$ 1,057,274	$ 1,004,652	$ 175,751	$ 165,715

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2010 and 2009
($ in thousands)

	2010 University of Maine System	2009 University of Maine System	2010 Component Units	2009 Component Units
OPERATING REVENUES				
Tuition and fees	$ 250,826	$ 237,972	$ -	$ -
Residence and dining fees	58,763	59,691	-	-
Less: scholarship allowances	(73,331)	(63,089)	-	-
Net student fees	236,258	234,574	-	-
Federal, state, and private grants and contracts	156,441	137,629	-	-
Recovery of indirect costs	15,174	14,134	-	-
Educational sales and services and other revenues	32,367	30,538	173	163
Other auxiliary enterprises	29,258	30,517	-	-
Total Operating Revenues	469,498	447,392	173	163
OPERATING EXPENSES				
Instruction	179,976	178,989	-	-
Research	74,729	73,202	-	-
Public service	60,004	56,585	-	-
Academic support	67,524	65,979	-	-
Student services	46,537	48,409	-	-
Institutional support	47,159	47,670	2,715	2,878
Operation and maintenance of plant	45,551	50,472	-	-
Depreciation and amortization	27,401	25,761	47	41
Student aid	25,156	21,410	751	659
Auxiliary enterprises	73,886	78,440	-	-
Total Operating Expenses	647,923	646,917	3,513	3,578
Operating Loss	(178,425)	(199,525)	(3,340)	(3,415)
NONOPERATING REVENUES (EXPENSES)				
Noncapital State of Maine appropriations	190,078	193,893	-	-
State Fiscal Stabilization Fund	7,152	6,566	-	-
Gifts currently expendable	11,382	16,240	1,496	852
Payments to the System	-	-	(4,715)	(6,917)
Endowment return used for operations (Note 3)	4,622	5,987	-	-
Investment income (expense) (Note 3)	10,733	(2,853)	10,761	(6,266)
Interest expense, net (Notes 7 and 8)	(9,046)	(9,483)	(6)	(18)
Net Nonoperating Revenue (Expense)	214,921	210,350	7,536	(12,349)
Income (Loss) Before Other Changes in Net Assets	36,496	10,825	4,196	(15,764)
OTHER CHANGES IN NET ASSETS				
State of Maine capital appropriations	6,879	9,442	-	-
Capital grants and gifts	7,784	13,636	-	-
Endowment return (loss), net of amount used for operations (Note 3)	4,864	(22,919)	-	-
Restricted investment income (expense)	-	-	2,155	(33,742)
True and quasi endowment gifts	321	371	3,932	6,957
Loss on disposal of capital assets	(643)	(1,110)	-	-
Total Other Changes in Net Assets	19,205	(580)	6,087	(26,785)
Increase (Decrease) in Net Assets	55,701	10,245	10,283	(42,549)
NET ASSETS				
Net Assets - beginning of year	651,505	641,260	158,002	200,551
Net Assets - end of year	$ 707,206	$ 651,505	$ 168,285	$ 158,002

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Cash Flows
Years Ended June 30, 2010 and 2009
($ in thousands)

	2010 University of Maine System	2009 University of Maine System
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition, residence, dining, and other student fees	$ 236,729	$ 228,744
Grants and contracts	161,451	158,389
Educational sales and services and other auxiliary enterprise revenues	61,066	61,669
Payments to and on behalf of employees	(415,042)	(424,166)
Financial aid paid to students	(31,157)	(27,883)
Payments to suppliers	(164,476)	(179,804)
Loans issued to students	(3,778)	(4,521)
Collection of loans to students	6,517	5,754
Interest collected on loans to students	750	632
Net Cash Used for Operating Activities	(147,940)	(181,186)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	190,078	193,893
State Fiscal Stabilization Program	7,016	6,566
Noncapital grants and gifts	10,221	17,180
Agency transactions	(1,487)	1,590
Net Cash Provided by Noncapital Financing Activities	205,828	219,229
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital appropriations	8,355	10,268
Capital grants and gifts	5,799	10,310
Proceeds from sale of capital assets	49	2,109
Acquisition and construction of capital assets	(27,266)	(52,751)
Principal paid on capital debt and leases	(8,591)	(8,536)
Interest paid on capital debt and leases	(9,154)	(9,586)
Net Cash Used for Capital and Related Financing Activities	(30,808)	(48,186)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	438,722	454,650
Purchases of investments	(471,228)	(456,995)
Earnings from investments	4,807	12,535
Net Cash Provided (Used) by Investing Activities	(27,699)	10,190
Net increase (decrease) in cash and cash equivalents	(619)	47
Cash and cash equivalents - beginning of year	992	945
Cash and cash equivalents - end of year	$ 373	$ 992

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Cash Flows
Years Ended June 30, 2010 and 2009
($ in thousands)

Reconciliation of operating loss to net cash used for operating activities:

	2010 University of Maine System	2009 University of Maine System
Operating loss	$ (178,425)	$ (199,525)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	27,401	25,761
Changes in assets and liabilities:		
Accounts and grants receivable, net	(5,186)	2,293
Inventories and prepaid expenses	(195)	(536)
Notes receivable, net	3,302	2,129
Accounts payable	4,771	(6,203)
Deferred revenue and deposits	(1,811)	513
Accrued liabilities	2,617	(6,148)
Grants refundable	(414)	530
Net Cash Used for Operating Activities	$ (147,940)	$ (181,186)

Noncash investing, capital, and financing activities:

	2010	2009
Capital asset additions included in accounts payable as of June 30	$ 942	$ 2,638
Capital asset additions acquired through capital leases	$ 111	$ 2,458
Capital asset additions acquired through note payable	$ 23	$ 734
Book value of capital asset sold and financed through lease receivable	$ 785	$ -
Book value of assets used as trade-ins on capital asset additions	$ -	$ 16

See accompanying notes to basic financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The University of Maine System ("the System"), a component unit of the State of Maine, consists of seven Universities, nine centers, and a central administrative office. All activities of the System are included in the accompanying financial statements, including those of its discretely presented component units (see Note 16). Those organizations are not-for-profit entities controlled by separate governing boards whose goals are to support the System. They receive funds primarily through donations and contribute funds to the System for student scholarships and institutional support.

b. Basis of Presentation

The accompanying financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB).

The System's policy for defining operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the System's operating and capital appropriations from the State of Maine, net investment income, gifts, and interest expense.

The System applies all pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, to the extent they do not conflict with GASB pronouncements.

c. Net Assets

The System's net assets (assets minus liabilities) are classified for accounting purposes in the following four categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. It also includes the unamortized issuance costs and premiums/discounts related to the outstanding debt. This category excludes the portion of debt attributable to unspent bond proceeds.

Restricted – nonexpendable: Net assets subject to externally imposed conditions that the System maintain them in perpetuity. In the event that market fluctuations have caused the fair value of an endowment to fall below corpus, the related net asset is valued at the lower fair value amount.

Restricted – expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the System or by the passage of time.

Unrestricted: All other categories of net assets. Unrestricted net assets may be committed by actions of the System's Board of Trustees.

The System has adopted a policy of generally utilizing restricted – expendable resources, when available, prior to unrestricted resources.

d. Cash and Cash Equivalents

The System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

e. Investments

All investments are reported at fair value. University management is responsible for the fair measurement of investments reported in the financial statements. The System has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the balance sheet date are reasonable.

Third party investments: Two outside entities, the Other Post Employment Benefit (OPEB) Trust and Maine Maritime Academy, pool monies with the System's endowment pool. Investment performance results of these pooled monies are allocated on a pro rata basis based on the numbers of pool shares held by each entity. Contributions to and withdrawals from the pool are allowed only on the first business day of a calendar quarter. Investment of these monies follows guidelines approved by the Board of Trustees Investment Committee. These guidelines are further disclosed in the remainder of this Note and Note 3 to these financial statements as part of the discussion of endowments.

Endowment: The System follows the pooled investment concept for its endowed funds, whereby all invested funds are included in one pool, except for funds that are separately invested as directed by the donor. Investment income is allocated to each endowed fund in the pool based on its pro-rata share of the pool. Net asset categories are:

- **Restricted nonexpendable**: Net assets subject to externally imposed stipulations that they be maintained permanently. Such net assets include the historical gift value of restricted true endowment funds.
- **Restricted expendable**: Net assets whose use is subject to externally imposed stipulations. Such net assets include the accumulated net gains on true endowment funds, restricted gifts and income, and other similarly restricted funds.
- **Unrestricted:** Net assets not subject to externally imposed stipulations.

The income produced by the fund, including realized gains, can be used to meet the spending objective. As determined by policy, the expendable income objective was 5% for FY2010 and FY2009. For FY2010, the 5% was applied to a 3-year market value average to determine expendable income. For FY2009, a two part formula was used consisting of first considering

the current FY endowment distribution increased by the consumer price index, then considering the current endowment fund market value multiplied by a 5% spending rate.
Authorized Investment Vehicles:

Short-term Investments: The System has a three-tiered approach regarding its short-term investments:

- Cash Pool – This tier is invested in a portfolio of highest quality short-term fixed-income securities (treasury obligations, agency securities, banker's acceptances, money market funds, CD's, commercial paper, short-term bond funds) with daily to 3-day liquidity. The average quality of the pool is at least "A1".
- Intermediate Pool – This tier is invested in a diversified portfolio, in accordance with investment manager guidelines, consisting primarily of fixed income securities with a normal average duration of 1 to 3 years. The average quality of the portfolio is at least "A-".
- Long-term Pool – This tier consists of funds that will not be required for at least 36 months. Assets should be diversified both by asset class and within asset classes. No minimum quality rating is specified for this pool, since it can invest in non-fixed income securities.

Endowment Investments: The fund will be diversified both by asset class and within asset classes. In order to have a reasonable probability of consistently achieving the Fund's return objectives, the following asset allocation policy has been adopted as of June 30;

	2010	2009
• Equity securities	45-65%	45-65%
• Fixed income securities	5-15%	5-15%
• Other	30-40%	30-40%
• Cash	0-10%	0-10%

Deposits with bond trustees: These monies are invested in accordance with the governing bond resolutions and arbitrage certificates.

f. Inventories

Inventories are stated at cost. Cost is determined using the first-in, first-out method.

g. Gifts and Pledges

Gifts are recorded at their fair value at the date of gift. Promises to donate to the System are recorded as receivables and revenues when the System has met all applicable eligibility and time requirements. Gifts and bequests to be used for endowment purposes are categorized as endowment gifts. Other gifts are categorized as currently expendable. Since the System cannot fulfill the time requirement for gifts to endowments until the gift is received, pledges to endowments are not reported. Pledges receivable are reported net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows.

Because of uncertainties with regard to their realizability and valuation, bequests and intentions to give and other conditional promises are not recognized as assets until the specified conditions are met.

h. <u>Grants and Contracts and Capital Appropriations</u>

The System records a receivable and corresponding revenue for these funding sources at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

i. <u>Capital Assets</u>

Capital assets are recorded at cost when purchased or constructed and at fair value at date of donation. In accordance with the System's capitalization policy, only equipment (including equipment acquired under capital leases) and purchased software with a unit cost of $5 or more and capital projects and internally generated intangibles with a projected cost of $50 or more are capitalized.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period. Software costs are capitalized and depreciated and include amounts paid to third parties and certain internal labor costs incurred to acquire and implement the software.

Depreciation and amortization of assets acquired under capital leases are recorded on a straight-line basis over the estimated useful lives of the related assets, principally as follows:

	Years
Buildings	30 - 60
Improvements	20 - 40
Equipment	5 - 20
Software	5 - 15

Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized. Equipment is removed from the financial statements during the fiscal year following the year they become fully depreciated. When land, buildings, and improvements are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

Prior to July 1, 2003, library materials were generally capitalized and depreciated over a ten-year period. Effective July 1, 2003, the System began to expense library materials as incurred. The System will retain the undepreciated library materials balance as a core non-depreciating asset.

The System does not capitalize and depreciate its collections of historical treasures and works of art because it is the System's policy that:

- Works of art and historical treasures are to be held for public exhibition, education, or research in furtherance of public service, rather than for financial gain.

- Works of art and historical treasures are to be protected, kept unencumbered, cared for, and preserved.
- The proceeds from sales of works of art and historical treasures are to be used to acquire other items for the collections.

j. Deferred Revenue and Deposits

Deferred revenue in the Statements of Net Assets consists primarily of grant and contract advances and deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. Deferred revenue for summer programs is presented net of related expenses (e.g., student aid).

k. Compensated Absences

Employees earn the right to be compensated during absences for annual vacation leave. The accompanying Statements of Net Assets reflect an accrual for the amounts earned, including related benefits ultimately payable for such benefit. The System accounts for the vacation leave hours on a last-in, first-out basis. A portion of this liability is classified as current and represents the System's estimate of vacation time that will be paid during the next fiscal year to employees leaving the System.

l. Deferred Amounts on Refunding

Deferred amounts on refunding represent the difference between the reacquisition price and the carrying value of refunded revenue bonds. These amounts are amortized and charged to operations as additional interest expense over the shorter of the remaining life of the refunded bonds or the life of the new bonds. The unamortized portion is reported in the Statements of Net Assets as a reduction of bonds payable.

m. Net Student Fees

Student tuition, dining, residence, and other fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are generally reflected as expenses.

n. Tax Status

The System is exempt from income taxes under Section 115 of the Internal Revenue Code as a governmental entity. It has also been recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Code.

o. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates in the financial statements include liabilities for self-insured plans, pension and other retirement benefit obligations, as well as allowances for uncollectible receivables. Actual results could differ from those estimates. The current economic environment increases the uncertainty of those estimates.

p. Reclassifications

Certain fiscal year 2009 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the fiscal year 2010 presentation.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. Deposits are considered uninsured and uncollateralized if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name. The System's policy is that with the exception of daily operating cash, it will carry no deposits that are uncollateralized or uninsured. As of June 30, 2010 and 2009, the bank balances of uninsured and uncollateralized operating cash deposits totaled $5,175 and $2,998, respectively.

3. INVESTMENTS

Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that entities disclose essential risk information about their fixed income investments and external investment pools.

a. Composition and Purpose of Investments

The System's investments and investment policies regarding the credit rating of its investments at June 30, 2010 and 2009 are disclosed below.

The System continues to use a pooled investment approach for its endowments (including Affiliates endowments invested with the System) unless otherwise required by the donor. Two outside entities, the UMS Other Post Employment Benefit (OPEB) Trust and Maine Maritime Academy, pool monies with the System's endowment. Investment policies and strategies are determined for the combined pool. Fair values, credit ratings, and interest rate risk for the entire investment pool are presented below under 'endowment' investments. The amount held for these two outside entities is then deducted to show only the amount of the System's endowment investment.

The System's investments are composed of the following at June 30, 2010:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Money funds, savings, CDs	$ 137			
Equities:				
Multi strategy funds	22,983			
Fixed Income Funds:				
Bank loans	10,464	Not rated	.1 years	Duration
Bonds	84,961	Not rated	.77 - 5 years	Duration
Money markets	30,550	Not rated	32 - 36 days	Ave maturity
State pool	47,100	Not rated	.01 years	Duration
Total	$ 196,195			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 2,870	Not rated		
Fixed Income Funds:				
Bonds	166	Aaa-Moody's	38 days	Ave maturity
Money markets	2,042	Not rated	55 days	Ave maturity
State pool	133	Not rated	.01 years	Duration
Total	$ 5,211			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 7,472			
Equities:				
Equities	37,664			
Equity funds	46,627			
Multi-strategy funds	36,411			
Fixed Income Funds:				
Money markets	240	Not rated	48 days	Ave maturity
Bonds	20,338	Not rated	3.5 years	Duration
Total Pooled Investments	148,752			
Less portion held on behalf of outside entities	(44,506)			
Endowment portion of pooled investments	104,246			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	79			
Total	$ 104,393			

The System's investments are composed of the following at June 30, 2009:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Money funds, savings, CDs	$ 1,493			
Equities:				
Multi strategy funds	16,390			
Fixed Income Funds:				
Bank loans	9,495	Not rated	.1 years	Duration
Bonds	61,224	Not rated	1.03 - 6.72 years	Duration
Money markets	47,902	Not rated	74 days	Ave maturity
State pool	20,112	Not rated	.05 years	Duration
Total	$ 156,616			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 2,870	Not rated		
Fixed Income Funds:				
Bonds	166	Aaa-Moody's	46 days	Ave maturity
Money markets	2,935	Not rated	74 days	Ave maturity
State pool	343	Not rated	.05 years	Duration
Total	$ 6,314			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 10,220			
Equities:				
Equities	32,055			
Equity funds	40,728			
Multi-strategy funds	29,216			
Fixed Income Funds:				
Money markets	64	Not rated	31 days	Ave maturity
Bonds	14,615	Not rated	3.9 years	Duration
Total Pooled Investments	126,898			
Less portion held on behalf of outside entities	(32,145)			
Endowment portion of pooled investments	94,753			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	73			
Total	$ 94,894			

Short-term Investments: The System's short-term investments are available to fund operations or other purposes as determined by System management.

Endowment Investments: Except for certain gifts invested separately at the request of the donors ($147 and $141 at June 30, 2010 and 2009, respectively), the System's endowment is managed as a pooled investment fund using external investment managers. The University of Maine at Farmington Alumni Foundation, the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. have elected to participate in the System's endowment pool through a management agreement. The fair values of these investments at June 30, 2010 and 2009, respectively are $15,055 and $13,042, and are reported as funds held for others in the accompanying Statements of Net Assets.

Under State of Maine law, the System may spend realized and unrealized appreciation on endowments in addition to earnings on the funds. It is the System's policy to spend a portion of the endowment earnings on operations and reinvest the balance. The reinvested earnings are presented as other changes in net assets. Total Endowment accumulated income and gains available to the System for spending are as follows at June 30:

	2010	2009
Restricted - expendable	$30,136	$26,640
Unrestricted	10,244	7,700
Total available for spending	$40,380	$34,340

Deposits With Bond Trustees: Deposits with bond trustees are composed of debt service reserves required by bond covenants and unexpended revenue bond proceeds.

b. <u>Interest Rate Risk</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Investments: To limit interest rate exposure, the System diversifies the maturity/duration of its investments as specified in Note 1.e.

Endowment Investments: To limit interest rate exposure, the Endowment investment policy restricts:

- The average effective duration of the investment grade fixed income portfolio to no more than 1 year greater than the duration of the Barclays Capital (Lehman Brothers) Aggregate Bond Index which is 4.06 years and 4.35 years at June 30, 2010 and 2009, respectively.
- The average effective duration for the high yield bond portfolio to no more than 1 year greater than the duration of the Citigroup BB/B Bond Index which is 6.6 years and 6.1 years at June 30, 2010 and 2009, respectively.

***Deposits with Bond Trustees**:* These monies are invested in accordance with governing bond covenants and arbitrage certificates.

c. <u>Foreign Currency Risk</u>

Short-term Investments: Several of the institutional funds in which the System invests include holdings in various foreign currencies, with some funds hedging against foreign currency risk. Foreign currency holdings represent 3% or less of the total dollar value of short-term investments at June 30, 2010 and 2009.

Endowment Investments: University policy is that up to 15% of the endowment portfolio may be invested in international equity assets and currency exposure may be hedged or unhedged. Additionally, 15% may be invested in a diversified global asset portfolio, which may be hedged or unhedged at the investment manager's discretion.

Deposits with Bond Trustees may be invested in accordance with the governing bond covenants and arbitrage certificates.

d. Investment Income

Income related to the System's investments is as follows:

	2010			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings (Loss)
Endowment investments	$ 9,108	$ 2,189	$ (872)	$ 10,425
Less managed funds distributed				(939)
University endowment income				$ 9,486
Reported as endowment return used for operations				$ 4,622
Reported as endowment gain, net of amount used for operations				4,864
Net gain from endowment investments				$ 9,486
Short-term investments	$ 7,176	$ 4,309	$ (922)	$ 10,563
Deposits with bond trustees	-	170	-	170
Total other investment income	$ 7,176	$ 4,479	$ (922)	$ 10,733

	2009			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings (Loss)
Endowment investments	$ (20,032)	$ 3,902	$ (802)	$ (16,932)
Reported as endowment return used for operations				$ 5,987
Reported as endowment loss, net of amount used for operations				(22,919)
Net loss from endowment investments				$ (16,932)
Short-term investments	$ (7,824)	$ 5,595	$ (1,165)	$ (3,394)
Deposits with bond trustees	-	541	-	541
Total other investment income	$ (7,824)	$ 6,136	$ (1,165)	$ (2,853)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

Accounts, grants, and pledges receivable include the following at June 30:

	2010			2009		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 25,807	$ 25,736	$ 71	$ 23,149	$ 22,374	$ 775
Grants receivable	31,290	31,206	84	22,311	20,751	1,560
Pledges receivable	7,166	2,328	4,838	9,160	1,818	7,342
Total gross receivables	64,263	59,270	4,993	54,620	44,943	9,677
Less allowance for doubtful accounts	(5,188)	(5,021)	(167)	(3,591)	(3,381)	(210)
Less discount on pledges receivable	(351)	-	(351)	(459)	-	(459)
Total receivables, net	$ 58,724	$ 54,249	$ 4,475	$ 50,570	$ 41,562	$ 9,008

In accordance with GASB 35, grants receivable related to the acquisition of capital assets are reported as a noncurrent receivable even though collection is expected within the next twelve months.

5. NOTES AND LEASES RECEIVABLE

Notes and leases receivable include the following at June 30:

	2010			2009		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 30,453	$ -	$ 30,453	$ 33,779	$ -	$ 33,779
Nursing Loans	1,563	-	1,563	1,598	-	1,598
Institutional Loans	6,842	-	6,842	6,889	-	6,889
Lease receivable **(a)**	1,189	63	1,126	-	-	-
Total notesand leases receivable	40,047	63	39,984	42,266	-	42,266
Less allowance for doubtful accounts	(1,285)	-	(1,285)	(1,390)	-	(1,390)
Total notes and leases receivable, net	$ 38,762	$ 63	$ 38,699	$ 40,876	$ -	$ 40,876

Collections of the notes receivable for Perkins, Nursing, and Institutional loans may not be used to pay current liabilities, as the proceeds are restricted for making new loans. Accordingly, these notes receivable are recorded in the accompanying Statements of Net Assets as noncurrent assets.

(a) Lease receivable consists of the following:

	2010	2009
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 1,189	$ -

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 16,073	$ 1,050	$ 106	$ -	$ 17,229
Library Materials	25,686	-	-	-	25,686
Construction in Progress	10,846	20,696	(19,935)	(445)	11,162
Total Nondepreciable Assets	52,605	21,746	(19,829)	(445)	54,077
Land Improvements	41,895		1,556	-	43,451
Buildings & Improvements	704,371		15,455	(44)	719,782
Equipment	75,506	5,691	2,779	(4,511)	79,465
Software	24,996	487	39	(687)	24,835
Total Depreciable Assets	846,768	6,178	19,829	(5,242)	867,533
Less Accumulated Depreciation:					
Land Improvements	23,638	1,476	-	-	25,114
Buildings & Improvements	192,726	16,344	-	(15)	209,055
Equipment	31,543	7,567	-	(3,496)	35,614
Software	6,491	1,870	-	(684)	7,677
Total Accumulated Depreciation	254,398	27,257	-	(4,195)	277,460
Net Depreciable Assets	592,370	(21,079)	19,829	(1,047)	590,073
Total Capital Assets	$ 644,975	$ 667	$ -	$ (1,492)	$ 644,150

Capital asset activity for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 14,128	$ 839	$ 1,106	$ -	$ 16,073
Library Materials	25,686	-	-	-	25,686
Construction in Progress	48,514	45,654	(83,322)	-	10,846
Total Nondepreciable Assets	88,328	46,493	(82,216)	-	52,605
Land Improvements	36,238	-	5,657	-	41,895
Buildings & Improvements	644,943	-	65,326	(5,898)	704,371
Equipment	64,603	3,040	11,233	(3,370)	75,506
Software	22,410	3,125	-	(539)	24,996
Total Depreciable Assets	768,194	6,165	82,216	(9,807)	846,768
Less Accumulated Depreciation:					
Land Improvements	22,285	1,353	-	-	23,638
Buildings & Improvements	180,223	15,426	-	(2,923)	192,726
Equipment	27,667	7,039	-	(3,163)	31,543
Software	5,193	1,800	-	(502)	6,491
Total Accumulated Depreciation	235,368	25,618	-	(6,588)	254,398
Net Depreciable Assets	532,826	(19,453)	82,216	(3,219)	592,370
Total Capital Assets	$ 621,154	$ 27,040	$ -	$ (3,219)	$ 644,975

Additions to capital assets include assets acquired through capital leases of $111 and $2,458 for the years ended June 30, 2010 and 2009, respectively.

As of June 30, 2010 and 2009, $2,174 and $3,278, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Assets as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2010 is $23,367 in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements, e.g., incurred costs.

Both the revenue bond and capital appropriation monies are earmarked for specific projects, most of which are capital construction projects. As monies are spent on these projects the costs are included in capital assets in the accompanying Statements of Net Assets.

Outstanding commitments on uncompleted construction contracts totaled $21,601 and $9,550 at June 30, 2010 and 2009, respectively.

7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2010 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 2,956	$ 111	$ (565)	$ 2,502	$ 283
Bonds and notes payable **(b)**	209,229	23	(8,299)	200,953	8,987
Total leases and bonds payable	212,185	134	(8,864)	203,455	9,270
Accrued liabilities:					
Workers' compensation - Note 11	5,546	1,732	(1,475)	5,803	1,730
Health insurance - Note 11	4,165	49,812	(50,111)	3,866	3,866
Postemployment health plan - Note 14	3,033	18,880	(16,326)	5,587	5,587
Other employee benefit programs - Note 13	40,427	56,415	(56,422)	40,420	3,988
Other	14,185	14,036	(13,630)	14,591	13,658
Total accrued liabilities	67,356	140,875	(137,964)	70,267	28,829
Total long-term liabilities	$ 279,541	$ 141,009	$ (146,828)	$ 273,722	$ 38,099

Changes in long-term liabilities during the year ended June 30, 2009 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 1,316	$ 2,458	$ (818)	$ 2,956	$ 310
Bonds and note payable **(b)**	216,213	734	(7,718)	209,229	8,293
Total leases and bonds payable	217,529	3,192	(8,536)	212,185	8,603
Accrued liabilities:					
Workers' compensation - Note 11	6,004	1,291	(1,749)	5,546	1,716
Health insurance - Note 11	5,671	51,060	(52,566)	4,165	4,165
Postemployment health plan - Note 14	9,119	17,975	(24,061)	3,033	3,033
Other employee benefit programs - Note 13	38,543	56,259	(54,375)	40,427	4,337
Other	14,320	13,659	(13,794)	14,185	13,610
Total accrued liabilities	73,657	140,244	(146,545)	67,356	26,861
Total long-term liabilities	$ 291,186	$ 143,436	$ (155,081)	$ 279,541	$ 35,464

(a) Lease Obligations

The System leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under capital leases and under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2010 are as follows:

	Capital Leases		Operating	
Year Ending June 30:	Principal	Interest	Leases	Total
2011	$ 283	$ 91	$ 867	$ 1,241
2012	207	145	280	632
2013	178	116	216	510
2014	205	81	116	402
2015	197	73	95	365
2016-2020	555	266	45	866
2021-2025	466	159	6	631
2026-2030	411	38	-	449
Total minimum lease payments	$ 2,502	$ 969	$ 1,625	$ 5,096

The rent expense related to operating leases amounted to $2,017 for the year ended June 30, 2010 and $2,147 for the year ended June 30, 2009.

(b) **Bonds and Notes Payable**

Bonds and notes payable consist of the following at June 30:

	2010	2009
2007 Series A Revenue Bonds (original principal of $46,740)		
Serial bonds, maturing from 2008 to 2037, with annual principal payments from $195 to $3,380 and coupon interest rates from 4.0% to 5.0%. Issued to partially refund the 1998A and 2004A Series Revenue Bonds and to provide funding for capital projects.	$ 45,090	$ 45,835
Add: unamortized premium	679	718
Total 2007 Series A Bonds	45,769	46,553
2005 Series A Revenue Bonds (original principal of $69,125)		
Serial bonds, maturing from 2006 to 2035, with annual principal payments from $75 to $3,455 and coupon interest rates from 3.5% to 5.0%. Issued to partially refund the 1998A, 2000A, 2002A, and 2003A Series Revenue Bonds and to provide funding for capital projects.	65,105	66,470
Add: unamortized premium	378	399
Less: unamortized deferred amount on refunding of 1998A, 2000A, 2002A,	(327)	-
and 2003A bonds	-	(346)
Total 2005 Series A Bonds	65,156	66,523
2004 Series A Revenue Bonds (original principal of $43,270)		
Serial bonds, maturing from 2005 to 2029, with annual principal payments from $335 to $5,080 and coupon interest rates from 2.0% to 5.0%. Issued to partially refund the 1998A and 2000A Series Revenue Bonds and to provide funding for capital projects.	33,985	34,410
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	1,071	1,375
Less: unamortized deferred amount on refunding of 1998A and 2000A bonds	(48)	(336)
Total 2004 Series A Bonds	41,418	41,859
2003 Series A Revenue Bonds (original principal of $19,970)		
Serial bonds, maturing from 2004 to 2032, with annual principal payments from $145 to $1,610 and coupon interest rates from 3.0% to 4.75%. Issued to refund the 1993A and 1993B Series Revenue Bonds.	11,050	11,760
Add: unamortized premium	111	118
Less: unamortized deferred redemption fee on 1993 bonds	(157)	(170)
Total 2003 Series A Bonds	11,004	11,708
2002 Series A Revenue Bonds (original principal of $43,020)		
Serial Bonds, maturing from 2002 to 2012, with annual principal payments from $310 to $1,525 and coupon interest rates from 2.0% to 5.375%. A balloon payment of $31,915 is due in 2012.	33,440	34,905
Add: unamortized premium	531	832
Total 2002 Series A Bonds	33,971	35,737

	2010	2009
2000 Series A Revenue Bonds (original principal of $41,725)		
Serial Bonds, maturing from 2001 to 2015, with annual principal payments from $1,490 to $4,465 and coupon interest rates from 4.5% to 5.75%.	$ 1,985	$ 4,155
Add: unamortized premium	7	12
Total 2000 Series A Bonds	1,992	4,167
1998 Series A Revenue Bonds (original principal of $29,540)		
Serial Bonds, maturing from 2000 to 2011, with annual principal payments from $660 to $1,050 and coupon interest rates from 3.95% to 4.75%.	1,050	2,055
Less: unamortized discount	(14)	(35)
Total 1998 Series A Bonds	1,036	2,020
University of Maine Foundation		
Note payable, drawn against $300 line of credit, unsecured, semi-annual payments of $3, including interest at 3.67%, matures 2013	18	-
Note payable, secured by equipment, matures 2019, with annual principal payments of $75, including interest at 3.94%.	589	662
Total bonds and notes payable, net	$ 200,953	$ 209,229

Costs associated with the issuance of revenue bonds have been reported in the accompanying Statements of Net Assets as bond issuance costs, net and are being amortized over the life of the related bond issuance as part of depreciation and amortization expense. The discounts and the premiums on the revenue bonds are also being amortized over the life of the respective bond issuances as part of interest expense using the effective interest method.

Principal and interest payments on bonds and notes payable for the next five years and in subsequent five-year periods are as follows at June 30, 2010:

Year Ending June 30:	Principal	Interest	Total
2011	$ 8,403	$ 9,355	$ 17,758
2012	39,303	8,983	48,286
2013	7,488	6,952	14,440
2014	7,836	6,600	14,436
2015	9,858	6,228	16,086
2016-2020	34,448	25,887	60,335
2021-2025	33,165	17,912	51,077
2026-2030	33,280	10,527	43,807
2031-2035	23,865	3,232	27,097
2036-2037	1,076	78	1,154
	$ 198,722	$ 95,754	$ 294,476

Interest costs related to the Revenue Bonds for fiscal year 2010 and fiscal year 2009 were $8,942 and $9,421, respectively.

Refunding of Debt – Prior Years

Prior to FY2008, the System defeased certain revenue bonds by placing the proceeds of new bonds in escrow accounts to provide for all future debt service payments on the old bonds. These transactions met the requirements of an "in-substance defeasance" as defined by U.S. generally accepted accounting principles, and as a result, neither the escrow accounts nor the liability for the refunded bonds is included in the accompanying Statements of Net Assets. On June 30, 2010 and 2009, $21,340 and $21,455, respectively, of bonds outstanding are considered defeased.

8. INTEREST RATE SWAP

As a means to lower its borrowing costs, the System entered into an interest rate swap in connection with the issuance of its $43,020 Series A Revenue Bonds (see note 7) in June 2002. The purpose of the agreement was to swap the fixed rate on the underlying debt for a variable rate for the term of the debt, and not for any speculative purposes.

In an effort to maximize total savings, the System terminated the swap on April 1, 2004 for a net gain of $2,291, which is being amortized over the remaining life of the related 2002 Series A Revenue Bonds. The unamortized amount as of June 30, 2010 and 2009 was $479 and $769, respectively and is included in deferred revenue and deposits in the accompanying Statements of Net Assets.

9. GOVERNMENT ADVANCES REFUNDABLE

The System participates in the Federal Perkins Loan and Nursing Loan Programs. These programs are funded through a combination of Federal and Institutional resources. The portion of these programs that has been funded with Federal funds is ultimately refundable to the U.S. Government upon the termination of the System's participation in the programs. The portion that would be refundable if the programs were terminated as of June 30, 2010 and 2009 has been included in the accompanying Statements of Net Assets as a noncurrent liability.

10. NET ASSETS

The System's net assets are composed of the following as of June 30:

	2010	2009
Invested in capital assets, net of related debt	$ 444,471	$ 436,128
Restricted - Nonexpendable:		
Endowment funds	48,602	47,141
Restricted - Expendable:		
Student financial aid	26,630	23,982
Capital assets and retirement of debt	11,896	16,181
Loans	12,583	12,358
Academic support	10,138	9,554
Research and public service	7,482	6,487
Library	2,258	2,030
Other	15,314	14,047
Total restricted - expendable	86,301	84,639
Unrestricted		
Educational and general reserves	41,503	29,516
Risk Management	2,313	1,935
Budget stabilization	5,000	-
Auxiliary enterprises	14,969	12,080
Benefit pool carryover	16,146	11,163
IT initiatives	1,649	700
Internally designated projects	15,107	13,708
Facility projects	19,489	9,348
Endowment earnings	10,244	7,700
Cost sharing and other	1,412	(2,553)
Total unrestricted	127,832	83,597
Total net assets	$ 707,206	$ 651,505

11. COMMITMENTS AND CONTINGENCIES

a. Grant Program Involvement

The System participates in a number of federal programs subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the System does not expect these amounts, if any, to be material to the financial statements.

b. Risk Management – Insurance Programs

The System is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries; and natural disasters. The System manages these risks through a combination of commercial insurance policies purchased in the name of the System, a self-insurance program for workers' compensation claims, and a retention program for physical damage to vehicles and mobile equipment.

The System's annual retention obligation for general liability is capped at $400, plus a $5 per claim deductible once the retention obligation is met. Educator's legal liability risks are subject to a $100 per loss retention with no annual cap. The System's estimate of the amount payable under these retention levels has been included in the accompanying Statements of Net Assets as part of current accrued liabilities. As of June 30, 2010 and 2009 certain legal claims existed for which the probability or amount of payment could not be determined. The System, however, does not expect these amounts, if any, to be material to the financial statements.

It is the policy of the System not to purchase primary commercial insurance for the risk of loss related to workers' compensation. Instead, the System's management believes it is more economical to manage its risk internally and to set aside assets for claims settlement. The liability for unpaid claims is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The System's estimated liability of $5,803 for workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7). The System purchases commercial specific and aggregate excess workers' compensation insurance which limits the exposure for any one incident to $1,000 and provides coverage in the event that total claims exceed expectations.

The System's active employee and under age 65 retiree health plans are self-funded with an Administrative Services Only (ASO) agreement with a commercial carrier. The System's Medicare eligible retiree health plan is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. Both contracts are in effect from January 1 through December 31, 2010. As of June 30, 2010 and 2009, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net Assets (see note 7).

The System's health insurance liability for the years ended June 30, consists of the following:

	2010	2009
Claims incurred but not reported	$ 3,355	$ 3,415
Reported claims	511	750
Total health insurance liability - Note 7	$ 3,866	$ 4,165

The System continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

c. Pollution Remediation Obligations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* became effective fiscal year 2009 and requires recognition of liabilities, recoveries and related disclosures, as appropriate.

As of June 30, 2010 and 2009, the UMS had no liabilities or recoveries that were required to be recognized. Subsequent to June 30, 2010, UMS received a Findings of Violation and Order for compliance from the Environmental Protection Agency regarding wetlands at UM. A Wetland Restoration Plan is currently being developed. The related liability is not reasonably estimable and has therefore not been recognized in these statements.

12. UNEXPENDED GRANTS

Generally, grants and contracts awarded to the System, but for which it has not fulfilled the eligibility requirements (e.g., incur allowable costs) are not included in the System's financial statements. The total of such awards as of June 30, 2010 and 2009 was $71,505 and $47,561, respectively.

In certain circumstances, however, the System receives cash in advance of fulfilling its obligations. In such situations the System reports the cash as an asset and reports an offsetting deferred revenue liability in the Statements of Net Assets. Outstanding advances as of June 30, 2010 and 2009 System's totaled $5,622 and $7,521, respectively.

13. PENSION PLANS

The System has several single-employer pension plans, each of which is described in more detail below. The System's pension expense (income) for each of these plans was as follows for the years ended June 30:

	2010	2009
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 19,761	$ 19,719
Incentive Plan	2,607	2,627
Hourly Employees:		
Basic Retirement Plan	3,522	3,521
Defined Benefit Plan	723	(1,967)
Total net pension expense	$ 26,613	$ 23,900

Faculty and Professional Employee Plans

Contributory Retirement Plan

Eligible salaried employees participate in the University of Maine System Retirement Plan for Faculty and Professional Employees (Contributory Plan), a defined contribution retirement plan administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). The Board of Trustees and collective bargaining agreements establish mandatory employee and employer contribution rates.

All full-time employees are eligible once employment begins. Part-time employees are eligible upon achieving the equivalent of five years of continuous, full-time, regular service. All eligible employees are required to participate when they reach thirty years of age. The System contributes an amount equal to 10% of each participant's base salary, and each participant contributes 4% of base salary. Participant and System contributions are fully and immediately vested. Participants may direct up to 100% of existing accumulations and/or future contributions to selected investment vehicles outside of TIAA/CREF. Upon separation from the System, participants may withdraw up to 100% of their account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Contributory Plan.

Employee contributions made to the Contributory Plan were $7,860 in FY2010 and $7,897 in FY2009.

Incentive Retirement Plan

The Incentive Retirement Plan is a single employer plan administered by the University of Maine System. The Plan does not issue stand alone financial statements. Employees enrolled in the Contributory Plan may elect to retire at any age after 55. Such employees, except for represented faculty who became employed on or after July 1, 1996 and other professional employees who became employed on or after July 1, 2006, also participate in the University of Maine System Incentive Retirement Plan (Incentive Plan), a defined benefit plan, which was established on July 1, 1975. The Board of Trustees has authority to establish and amend provisions under the Incentive Plan subject to collective bargaining. The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular service immediately prior to retirement will receive a benefit equivalent to 1½% times their completed years of service times their final annual base salary (up to a maximum of 27 years). This amount is to be paid as a lump-sum contribution to the participant's TIAA or CREF account. Employees do not make contributions under the Incentive Plan.

The Incentive Plan, which is funded on a termination basis (i.e., when costs become due and payable), holds no assets. Actuarial valuations, utilizing the projected unit credit actuarial cost method and 30-year declining-period, dollar amortization, were performed as of July 1, 2009 and 2007. Interest was assumed to compound at an annual rate of 5.75% and 6.25%, respectively, and salaries were assumed to increase at an annual rate of 3.5%.

Summarized below are the actuarial liability and actuarial value of assets at July 1, 2009:

Actuarial accrued liability	$ 25,460
Actuarial value of assets	-
Unfunded actuarial accrued liability	$ 25,460

The net pension obligation (NPO) represents the cumulative difference between annual pension cost and employer contributions to the plan. The NPO is included in the accompanying Statements of Net Assets in noncurrent accrued liabilities (see other employee benefit programs in Note 7). Three-year trend information through June 30, 2010, including changes in the NPO, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2010	$ 3,235	$ 1,089	$ 1,717	$ 2,607	$ 1,881	72%	$ 726	$19,660
2009	$ 3,104	$ 1,127	$ 1,604	$ 2,627	$ 1,726	66%	$ 901	$18,934
2008	$ 3,104	$ 1,056	$ 1,503	$ 2,657	$ 1,521	58%	$ 1,136	$18,033

Hourly Employees

Basic Retirement Plan

The Basic Retirement Plan is a single employer plan administered by the University of Maine System. The Plan does not issue stand alone financial statements. The Defined Contribution Program of the Basic Retirement Plan for Classified Employees (Basic Plan) was created on July 1, 1998 in accordance with Section 403(b) of the Internal Revenue Code. Hourly employees hired July 1, 1998 or later participate in the Basic Plan. Most eligible employees who were hired before July 1, 1998 and who were younger than age 50 as of June 30, 1998 rolled over to the Basic Plan the value of their accrued benefit in the Defined Benefit Retirement Plan for Classified Staff (Defined Benefit Plan, as described further below), which until that time was the primary pension plan for classified employees. Eligible employees who were hired before July 1, 1998 and aged 50 or older on June 30, 1998 could elect to roll over to the Basic Plan the value of their accrued benefit in the Defined Benefit Plan or remain in the Defined Benefit Plan.

Full-time employees are eligible to participate in the Basic Plan once employment begins. Part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time regular service. Participants may direct up to 100% of existing accumulations and/or future contributions to selected investment vehicles outside of TIAA-CREF. Upon separation from the System, participants may withdraw up to 100% of their account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Basic Plan.

Employees hired July 1, 1998 or later are required to contribute 1% and may contribute up to 4% of base pay to the Basic Plan. Their contributions are matched 100% by the System. Employees hired prior to July 1, 1998 and who have more than five years of completed service may voluntarily contribute up to 4% of base pay and receive a 100% match from the System.

Employees who (1) have four or more years of completed service and (2) do not participate in the Defined Benefit Plan automatically receive System contributions equal to 6% of their base pay. These employees contribute 1%, but may contribute up to 4% of their base pay and receive a 100% match from the System.

Employee contributions made to the Basic Plan were $1,516 in FY2010 and $1,576 in FY2009.

Defined Benefit Plan

The Defined Benefit Plan is maintained for eligible employees who chose not to join the Basic Plan. Normal retirement benefits are paid to participants who attain age 65 and retire. The monthly retirement benefit is based on a formula specified by policy in collective bargaining agreements.

Early retirement benefits are paid to participants who retire upon the attainment of age 55 and who have completed five years of continuous service. The benefit is computed in accordance with the normal retirement benefit, but is reduced by an actuarial factor because benefits will be paid over a longer period of time. No reduction is made if an employee retires after attaining 62 years of age with 25 or more years of service. Deferred vested benefits are paid to participants who have attained five or more years of continuous service. Participants are also eligible for disability and death benefits.

Employees who participate in the Defined Benefit Plan may also participate in the Optional Retirement Savings Plan (ORSP). The ORSP is a voluntary, employee-funded defined contribution plan. Employees may contribute up to 4% of their base pay and receive a 100% match from the System. The ORSP is administered by TIAA-CREF.

The Defined Benefit Plan holds investment assets consisting principally of equities, bonds and cash equivalents to fund benefits. At June 30, 2010 the value of these assets was less than the Defined Benefit Plan's actuarial accrued liability and at June 30, 2009 the assets exceeded the liability. Because the Defined Benefit Plan is a separate trust, its assets and liabilities are not included in the accompanying financial statements. The actuarial accrued liability is a standardized measure representing the actuarial present value of credited projected pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future, as a result of employee service rendered to date.

An actuarial valuation was performed as of July 1, 2009. The following methods and assumptions were used for those valuations:

Actuarial cost method	Projected Unit Credit
Amortization method	10-year level dollar
Asset Valuation method	5-year smoothing of differences between actual and expected returns
Actuarial Assumptions:	
Investment rate of return	8.0%
Projected salary increases	3.5%
Cost-of-living adjustments	5% to 10% depending on the retirement date

Summarized below are the accrued actuarial liability and actuarial value of assets at July 1, 2009:

Actuarial accrued liability	$ 47,380
Actuarial value of assets	44,477
Underfunded actuarial accrued liability	$ 2,903

Funding of Basic and Defined Benefit Plans

While the Basic Plan and Defined Benefit Plan are administratively separate, they are both part of the Retirement Plan for Classified Employees and covered by the same plan document. In accordance with Section 414(k) of the Internal Revenue Code, the System may elect to fund employer contributions to the Basic Plan and ORSP from excess assets in the Defined Benefit Plan, subject to certain limitations. The System used $2 million in this manner during fiscal year 2009. This amount is reflected as a negative contribution in the four-year trend information that follows.

The NPO balance of the Defined Benefit Plan at transition was zero, since all actuarially determined required contributions were made by the System prior to that date. Annual required contributions and other metrics shown below accordingly reflect the funded status of the Defined Benefit Plan, as well as expected benefits attributable to the Basic Plan and ORSP.

Three-year trend information through June 30, 2010, including changes in the NPO, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2010	$ 674	$ (56)	$ (105)	$ 723	$ -	-	$ 723	$ 18
2009	$ (2,018)	$ (59)	$ (110)	$ (1,967)	$ (2,000)	102%	$ 33	$ (705)
2008	$ (2,018)	$ (62)	$ (115)	$ (1,965)	$ (2,000)	102%	$ 35	$ (738)

As of June 30, 2010 the NPO is included in the accompanying Statement of Net Assets as part of the current portion of accrued liabilities. As of June 30, 2009, the NPO is included in the accompanying Statement of Net Assets as part of accounts, grants, and pledges receivable.

14. POSTEMPLOYMENT HEALTH PLAN

The System follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the System to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. The Postemployment Health Plan is a defined benefit, single employer plan, administered by the University of Maine System. The Plan does not produce stand alone financial statements. As of June 30, 2010 and 2009, there were approximately 7,200 and 7,100 persons, respectively, covered by the System's postemployment health plan.

The System subsidizes the cost of insurance for the following persons:

- Retired from the System with at least 10 years of full-time regular service and have reached age 65 or
- Former employees approved for long-term disability benefits regardless of age or service

The subsidy for those meeting the above requirements is 100% of the cost for the retiree and 50% of the costs for eligible dependents. For employees retiring on or after July 1, 2010, the subsidy will be 90% of the cost for the retiree and 50% of the costs for the eligible dependents. With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria. As of June 30, 2010 and 2009, there were approximately 1,600 and 1,700 persons receiving a subsidy from the System.

The following persons may also participate in the System's health insurance plan after retirement; however, they must pay 100% of the cost for themselves and their dependents:

- Retired from the System with at least 10 years of full-time regular service and have reached age 55 but is under age 65 **or**
- Retired from the System at age 65 or older but had not met the years of service requirement

As of June 30, 2010 and 2009, there were 239 and 170 persons, respectively, participating in the plan but not receiving a subsidy from the System.

Health insurance coverage for eligible persons is provided as part of the System's regular health insurance contract. Persons eligible for a subsidy from the System may not convert their benefit into an in-lieu payment to secure coverage under independent plans.

The System's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation as of June 30:

	2010	2009
Annual required contribution	$ 18,880	$ 17,975
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost (expense)	18,880	17,975
Contributions	16,326	24,061
Increase (decrease) in net OPEB obligation	2,554	(6,086)
Net OPEB obligation - beginning of year	3,033	9,119
Net OPEB obligation - end of year	$ 5,587	$ 3,033

	2010	2009
Contributions are comprised of the following:		
Pay-as-you-go	$ 7,291	$ 5,770
Irrevocable trust (Other Post Employment Benefits Trust)	9,035	18,291
Total contributions	$ 16,326	$ 24,061

The net OPEB obligation of $5,587 and $3,033 at June 30, 2010 and 2009, respectively, is recorded as an accrued liability on the statement of net assets. The System is committed to funding the June 30, 2010 net obligation by December 31, 2010. The Other Post Employment Benefits Trust pools its assets with the System's endowment investments and follows the investment guidelines described in Note 3 of these financial statements.

As of July 1, 2009, the most recent actuarial valuation, the actuarial accrued liability for benefits was $163,799 and the actuarial value of assets was $18,870 resulting in an unfunded actuarial accrued liability (UAAL) of $144,929. The covered payroll (annual payroll of active employees covered by the plan) was $221,275 and the ratio of the UAAL to the covered payroll was 65.5%.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as the actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between employer and plan members to that point. The actuarial methods and assumption used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuations, the entry age actuarial cost method was used. The actuarial assumptions included a 8.5 percent investment rate of return (net of administrative expenses), which is the rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Eventually, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized on a level dollar basis over a thirty year period.

15. PASS THROUGH GRANTS

During fiscal year 2010 and 2009, the System distributed $29,669 and $16,315, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

16. COMPONENT UNITS

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The System determined that two of those entities meet the criteria under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* for inclusion as discretely presented component units of the System and, accordingly, has presented them in the accompanying financial statements as of and for the years ended June 30, 2010 and 2009.

The discretely presented component units are private, not-for-profit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the System's financial reporting entity for these differences.

The System's major discretely presented component unit is the University of Maine Foundation ("the Foundation"), which is a legally separate, tax-exempt organization that acts primarily as a fund-raising organization to supplement the resources that are available to the System in support of its programs. The board of directors of the Foundation is self-perpetuating and independent of the System's Board of Trustees. Although the System does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the System by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the System (specifically the University of Maine), the Foundation is considered a component unit of the System and is discretely presented in the System's financial statements.

Condensed financial information of the Foundation is as follows as of and for the year ended June 30:

	2010	2009
Assets		
Current assets	$ 3,532	$ 4,683
Noncurrent assets	154,111	144,744
Total Assets	$ 157,643	$ 149,427
Liabilities and Net Assets		
Current liabilities	$ 159	$ 370
Noncurrent liabilities	7,308	7,343
Total Liabilities	7,467	7,713
Net Assets:		
Invested in capital assets, net of related debt	92	105
Restricted nonexpendable	115,141	113,192
Restricted expendable	34,599	32,285
Unrestricted	344	(3,868)
Total Net Assets	150,176	141,714
Total Liabilities and Net Assets	$ 157,643	$ 149,427
Operating Revenues	$ -	$ -
Operating Expenses	2,372	2,540
Operating Loss	(2,372)	(2,540)
Nonoperating Revenues (Expenses)		
Payments to the System	(4,626)	(6,775)
Other nonoperating revenues (expenses)	11,198	(6,334)
Net Nonoperating Revenue	6,572	(13,109)
Income (loss) before other changes in net assets	4,200	(15,649)
Other Changes in Net Assets	4,262	(19,513)
Increase (decrease) in Net Assets	8,462	(35,162)
Net assets, beginning of year	141,714	176,876
Net assets, end of year	$ 150,176	$ 141,714

Complete financial statements for the Foundation in its FASB format can be obtained from the Foundation’s offices at Two Alumni Place, Orono, ME 04469-5792.

UNIVERSITY OF MAINE SYSTEM
Required Supplemental Information – Retirement Plans
Schedules of Funding Progress, Employers’ Contributions, and Related Note
Year ended June 30, 2010
(Unaudited)
($ in thousands)

Schedules of Funding Progress

Actuarial valuation (date as of July 1)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
Incentive Retirement Plan for Faculty and Professionals						
2009	$ —	$ 25,460	$ 25,460	—	$ 133,609	19.1%
2007	$ —	$ 23,982	$ 23,982	—	$ 141,137	17.0%
2006	$ —	$ 21,034	$ 21,034	—	$ 134,672	15.6%
2005	$ —	$ 20,271	$ 20,271	—	$ 135,017	15.0%
2004	$ —	$ 21,219	$ 21,219	—	$ 130,216	16.3%
2003	$ —	$ 19,980	$ 19,980	—	$ 127,531	15.7%
Retirement Plan for Classified Staff - Classified Plan Only						
2009	$ 44,477	$ 47,380	$ 2,903	93.9%	$ 3,340	86.9%
2007	$ 63,941	$ 47,733	$ (16,208)	134.0%	$ 4,906	(330.4%)
2006	$ 59,521	$ 52,974	$ (6,547)	112.4%	$ 4,203	(155.8%)
2005	$ 58,988	$ 53,024	$ (5,964)	111.2%	$ 6,235	(95.7%)
2004	$ 59,248	$ 56,804	$ (2,444)	104.3%	$ 7,279	(33.6%)
2003	$ 59,087	$ 53,831	$ (5,256)	109.8%	$ 8,770	(59.9%)
Post Employment Health Plan						
2009	$ 18,870	$ 163,799	$ 144,929	—	$ 221,275	57.0%
2008	$ —	$ 120,481	$ 120,481	—	$ 226,391	53.2%
2007*	$ —	$ 104,903	$ 104,903	—	$ 221,215	47.4%

Schedules of Employers’ Contributions

Year ended June 30	Annual required contribution	Percentage contributed	Annual required contribution	Percentage contributed
	Incentive Retirement Plan for Faculty and Professionals		**Retirement Plan for Classified Staff**	
2010	$ 3,235	58%	$ 674	—
2009	$ 3,104	56%	$ (2,018)	99%
2008	$ 3,104	49%	$ (2,018)	99%
2007	$ 2,501	38%	$ (409)	—
2006	$ 2,356	47%	$ (268)	—
2005	$ 2,521	57%	$ (153)	—

* = This is the initial year of the plan.

UNIVERSITY OF MAINE SYSTEM
Supplemental Information Required by the State of Maine
Schedules of Activities
($ in thousands)

Year Ended June 30, 2010

Schedule 1

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 656,969	$ 297,883	$ 199,635	$ 7,784	$ (151,667)
General Revenues:					
Unrestricted interest and investment earnings					10,733
Additions to endowments - gifts					321
State of Maine noncapital appropriation					190,078
State of Maine capital appropriation					6,879
Loss on disposal of capital assets					(643)
Total Revenues and Extraordinary Items					207,368
Change in Net Assets					55,701
Net Assets, Beginning of Year					651,505
Net Assets, End of Year					$ 707,206

Year Ended June 30, 2009

Schedule 2

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 656,400	$ 295,629	$ 157,637	$ 13,636	$ (189,498)
General Revenues:					
Unrestricted interest and investment earnings (expense)					(2,853)
Additions to endowments - gifts					371
State of Maine noncapital appropriation					193,893
State of Maine capital appropriation					9,442
Loss on disposal of capital assets					(1,110)
Total Revenues and Extraordinary Items					199,743
Change in Net Assets					10,245
Net Assets, Beginning of Year					641,260
Net Assets, End of Year					$ 651,505

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
University of Maine System:

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the University of Maine System (the System), a component unit of the State of Maine, as of and for the year ended June 30, 2010, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 2, 1010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the System in a separate letter dated November 2, 2010.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 2, 2010